



WASHINGTON STATE DEPARTMENT OF REVENUE

Strategic Business Plan

JULY 2008 - JUNE 2013



“Working together to fund Washington’s future.”

I am pleased to submit the Department of Revenue’s (DOR) 2008-2013 Strategic Business Plan. This plan continues the focus on our vision of creating an open and collaborative environment that responds to the changing needs of taxpayers, achieves the highest levels of voluntary compliance, and maximizes services delivery. We recognize that achieving this vision requires a conscientious effort of working with taxpayers, businesses, stakeholders, and employees alike to accomplish our objectives. This plan is built on the foundation of our motto “Working together to fund Washington’s future” and identifies four goals that set the strategic direction of the Department for the next six years.

The four goals are:

- > Make Conducting Business with the Department, as Clear, Simple, and Efficient as Possible.*
- > Develop, Retain and Value a High Quality, Diverse Workforce.*
- > Promote Fairness and Consistency in the Development and Application of Tax Law.*
- > Promote Correct and Timely Reporting and Payment of Taxes.*

As the state’s primary tax administration agency, DOR collects over 94 percent of state general fund revenues as well as many local taxes. These tax dollars fund vital public services throughout the state. Citizens and taxpayers alike depend on a reliable and credible tax system so that paying taxes is simple and tax administration is fair and consistent. Over 98 percent of the revenue collected by the Department is paid on time and in full. This high voluntary compliance rate is a result of the conscientious taxpayers in this state and forward looking work of this agency and staff.

The objectives and strategies under these goals are aimed at making the work of the agency more transparent and cost effective, are based on listening to taxpayers, the public, and other stakeholders, involve working with taxpayers and others on preparing for the future, and emphasizes a commitment to enforcing taxes in a fair and consistent way.

We seek the partnership of the Governor, Legislature, business community, taxpayers, local governments, and others to achieve our vision. By working together, having focus through our goals, employing strategies to meet the goals, we will ensure that we continue to meet customer needs, fulfill the public’s expectations, and fund Washington’s future.



Cindi Holmstrom
Director

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Our Vision Mission Goals and Values

Our Vision

To create an open and collaborative environment that responds to the changing needs of taxpayers, achieves the highest levels of voluntary compliance, and maximizes service delivery.

Our Mission

To fairly and efficiently collect revenues and administer programs to fund public services, and advocate sound tax policy.

Our Goals

- > *Make conducting business with the Department as clear, simple and efficient as possible.*
- > *Develop, retain, and value a high quality, diverse workforce.*
- > *Promote fairness and consistency in the development and application of tax law.*
- > *Promote correct and timely reporting and payment of taxes.*

Our Values

Open Communication: Listening and being clear and forthright in all communications to enhance understanding.

Cooperation: Working together to achieve Department goals.

Respect: Honoring diversity, recognizing individual contributions and treating people with courtesy.

Integrity: Committing to honest and ethical behavior.

Professionalism: Demonstrating competence, resourcefulness, and the highest standards of conduct.

Accountability: Taking responsibility for our actions and performance.

Excellence: Working effectively in a supportive and fun work environment to achieve success.

“Working together to fund Washington’s future.”

Agency Structure

Organizational Chart



Agency Structure



The Department of Revenue consists of four main organizational functions: Executive; Tax Policy; Operations; and Administrative Services.

Executive

The Executive Office provides overall guidance and direction to the organization. Responsibilities include setting the organizational vision, organizing the Department, overseeing operations, and ensuring the Department meets its statutory obligations and administers its programs effectively. Executive Management is responsible for establishing strategic direction and policies, and establishing appropriate plans to enable the Department to accomplish its mission. The Internal Audit unit also reports functionally to Executive office. For legal issues, the Department is represented by the Office of the Attorney General.

Appeals

The Appeals division conducts hearings on excise tax appeals brought by taxpayers and issues written decisions. The division negotiates settlements of tax disputes, and executes closing agreements when appropriate. The division also presides over appeals of cigarette and tobacco seizures, log exports, business license revocation appeals, and represents the Department in appeals before the State Board of Tax Appeals. Select determinations issued by the division are published and establish precedent for the Department and the taxpayer.

Tax Policy

Legislation and Policy

The Legislation and Policy division coordinates the Department's legislative efforts. In addition to providing the Legislature with accurate and timely information, the division concentrates its legislative efforts toward fairness, consistency, and ease of administration. Legislation and Policy personnel advise the executive and agency leaders on national tax policy issues and represent the Department at national meetings and forums. Division responsibilities include:

- > Planning and monitoring the implementation of new or revised tax programs.
- > Determining the impacts of proposed legislation.
- > Developing tax policy options.
- > Drafting tax related legislation.
- > Performing special policy analyses to address specific industry, executive, or Department needs.
- > Conducting training for Department personnel and external stakeholders. The division's training efforts are focused primarily on newly enacted legislation but also include more generalized information about tax programs administered by the Department.

Research

The Research division conducts fiscal analysis, compiles data and provides technical assistance for the Governor, the Legislature, the Department, and others to support informed decision-making. The division responsibilities include:

- > *Producing fiscal estimates on revenue-related legislative proposals, including development of four models (modeling tools) for that purpose.*
- > *Publishing data on tax collections.*
- > *Preparing revenue forecasts for non-general fund sources.*
- > *Conducting special studies as requested or required by statute.*
- > *Responding to a wide variety of requests from other state agencies, local government, the media and others in order to inform tax policy decisions.*

The Research division also conducts operations research projects for division managers to help increase the efficiency and effectiveness of Department programs.

Interpretations and Technical Advice

The Interpretations and Technical Advice (ITA) division coordinates the development and communication of tax policy within the Department. The division provides Executive staff with policy positions and options on existing tax statutes, and responds to requests for technical advice from all divisions within the Department. The division drafts rules, coordinates the rule-making process, drafts interpretive statements (e.g., excise tax advisories), and ensures the information is made available to taxpayers and Department employees. The division also engages in a number of stakeholder efforts with external groups to address emerging and/or sensitive policy issues. ITA works with other divisions to review drafts of controversial or significant letter rulings to be issued to taxpayers or decisions responding to taxpayer petitions. Working with other divisions, Interpretations and Technical Advice develops training programs for staff to ensure consistent application of tax policy.

Operations

Audit

Audit division activities support the voluntary reporting and payment of taxes and the administration of the tax system primarily through the performance of audits. Audit division staff are located in field offices across the state and in remote offices throughout the United States (see maps page 8 and 9) where they conduct audits of businesses that have activity in the state of Washington. The Audit division works directly with taxpayers to verify the accuracy of taxes reported, and to identify and correct improper reporting. Audit division activities also include educating taxpayers about tax reporting through business outreach seminars, consultation visits, and speaking engagements. Internally, the Audit division assists the Department in understanding the practical application of tax law by identifying changes in business activities, industries and technology.

Taxpayer Account Administration

Core functions of the Taxpayer Account Administration division include reconciliation of taxpayer accounts, business registration, taxpayer account maintenance, data capture, document imaging, and retention of taxpayer records. Within the division, Excise Tax Examiners conduct tax return and tax account examinations, reconcile taxpayer account activity, and bill for tax underpayments or refund tax overpayments. The division is also responsible for the identification, verification, and distribution of local government sales and use tax, represents the Department in the Unified Business Identifier program, and administers the Department's Electronic Filing program. The division oversees system development projects for the major tax processing systems of the Department. Taxpayer assistance is provided through the division's call center operation, and one-on-one assistance through direct taxpayer contact.



Taxpayer Services

The Taxpayer Services division is responsible for the Department's taxpayer information, education and outreach programs, public relations, and major aspects of internal employee communication. In addition to providing general tax information and guidance, the division coordinates content for the Department's Internet and Intranet web sites and publications, manages the streaming video program, and assists with the development of web applications. The division coordinates, prepares and prints most Department forms, produces or assists other divisions in the production and distribution of publications. It coordinates the Department's records retention and public records programs. Taxpayer Services promotes voluntary compliance through services such as telephone assistance, technical assistance notices, and taxpayer workshops. Taxpayer Services responds to written taxpayer inquiries, providing binding tax application and reporting instructions. In addition, the division administers the legislatively-mandated Taxpayer Advocate program, which assists taxpayers with resolving issues and understanding their rights in working with the Department.

Compliance

The Compliance division, through direct contact with Washington citizens and businesses, pursues collections of unpaid, past-due receivables and tax returns, and conducts investigations to identify and collect unreported taxes from unregistered businesses operating in Washington State. The division also assesses and collects taxes from Washington residents who owe use tax on tangible personal property. Personal assistance and education to taxpayers is also provided by division employees through in-person contact in many of the field offices, and through telephone assistance and outreach activities. These efforts help to ensure proper business registration and accurate tax reporting.

Special Programs

The Special Programs division administers 7 specialty taxes and 5 non-tax programs. The Forest Tax section administers the timber excise tax and log export enforcement programs. The Miscellaneous Tax section administers the cigarette excise tax, tobacco products tax, estate tax, escheats program, real estate excise tax, leasehold excise tax, commercial vessel tax and various sales tax deferral programs. The Miscellaneous Tax section is also responsible for administering the tax accountability and incentive reporting requirements associated with tax incentive programs. In 2008, the legislature implemented Earned Income Tax Credit legislation that will also be administered by this section. In addition, the division administers the State's Unclaimed Property program, a consumer protection program designed to return lost or abandoned property to the lawful owner. As a division, Special Programs conducts a wide variety of functions needed to administer these smaller programs including tax return processing, and taxpayer assistance.

Property Tax

The Property Tax division oversees the administration of property taxation at the state and local level. Responsibilities include the development of rules and guidelines for the assessment and taxation of property. The division provides advice, instructions and training to offices of county assessors, treasurers and boards of equalization and answers questions of interpretation. The division directly assesses the inter-county operating property of about 375 airline, power, gas, railroad car line, and communication companies. Other responsibilities include:

- > *Conducting county assessment ratio studies to set the state school levy and equalize the value of utilities to local taxing districts.*
- > *Providing appraisal assistance to counties.*
- > *Providing education to assessment personnel and administering the appraiser accreditation program.*
- > *Administering property tax exemptions for nonprofit organizations, and deferrals for senior citizens, veterans and low income homeowners.*
- > *Providing oversight of county boards of equalization and the administration of levies; approving county revaluation programs.*
- > *Providing oversight of personal property assessment and the setting of personal property valuation guidelines annually.*
- > *Providing oversight of the current use program; review of county assessment and levy administration analysis of proposed property tax legislation.*
- > *Analyzing voter or legislative property initiatives.*
- > *Conducting general compliance reviews to assess county compliance with state law.*

Administrative Services

Information Services

The Information Services division manages the Department's information technology and telecommunication systems. The information technology infrastructure includes wide and local area networks, data base management, as well as an internet presence that supports the provision of online forms and information. The division also develops and supports a growing number of e-commerce applications such as electronic filing, secure messaging, unclaimed property searches, and the geographic information system for looking up local tax codes. The Information Services division also develops and maintains a complex tax management computer system as well as other administrative applications, data security functions, client support activities, data center management, and telecommunications.

Internal Audit

Reporting functionally to the Agency Director, the Internal Audit program provides independent, objective audit and consulting services to support management in accomplishing the Department's mission and goals. The work of Internal Audit is performed following the International Standards for the Professional Practice of Internal Auditing established by the Institute of Internal Auditors (IIA). Internal Audit activities support management by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance. Internal Audit focuses on:

- > *Providing internal controls for safeguarding state assets against loss and/or abuse.*
- > *Ensuring reliability and integrity of financial records and reports.*
- > *Assessing the Department's policies and practices to ensure compliance with both legal and administrative requirements.*
- > *Ensuring appropriate laws are followed.*



Organizational Development

Organizational Development is responsible for planning, organizing, and leading the development of performance management and quality improvement initiatives. This includes the Government Management Accountability and Performance initiative within the Department and the Quality Program and Malcolm Baldrige-based evaluations through the Washington State Quality Award. The section coordinates employee recognition programs, satisfaction surveys, as well as leadership, team and facilitator development. Organizational Development fosters innovation to continuously build a stronger performance management system.

Business and Financial Services

The Business and Financial Services division provides a wide range of administrative and financial services to agency divisions, employees and the public. The division is comprised of three sections; Financial Services, Cash Management and Office Services. Financial Services is responsible for general and revenue accounting, payroll and leave accounting, budgeting, strategic planning, financial analysis and reporting. The Cash Management section processes deposits of agency cash receipts and handles the corresponding reconciliations and reporting. Office Services oversees inventory control, facilities management, purchasing, office security, warehousing, sustainability, emergency preparedness and the agency's motor pool.

Human Resources

The Human Resources division is responsible for providing a broad range of employment services to support the Department's workforce infrastructure, while ensuring compliance with employment laws and management system requirements. The Recruitment section works with hiring managers to recruit, select, and retain the most qualified candidates to meet the staffing needs of the Department. The Personnel Operations section processes the Department's personnel actions, maintains records, and provides expert advice, consultation and coordination on a wide range of personnel management services, including position classification and compensation, employee and labor relations, and performance management. The Training section develops and delivers employee training, including a comprehensive supervisory and management program, and administers the Department's training system. The HR Risk Management section provides employment liability prevention consultation covering safety, wellness, worker's compensation, disability accommodation, family medical leave administration and discrimination prevention and investigation.

Department of Revenue Offices

Main Office

Olympia

1025 Union Ave SE
Suite 500
Olympia, WA 98504-7454

Field Office

Customer Service Centers

Bellingham

1904 Humboldt Street
Suite A
Bellingham, WA 98225
(360) 676-2114

Everett

9930 Evergreen Way
Suite Y-150
Everett, WA 98204-3893
(425) 356-4800

Kent

20819 72nd Ave South
Suite 680
Kent, WA 98032
(253) 437-3440

Port Angeles

734 E First St
Suite B
Port Angeles, WA 98362
(360) 417-9900

Richland

1657 Fowler Street
Richland, WA 99352
(509) 734-7526

Seattle

2101 4th Ave
Suite 1400
Seattle, WA 98121-2300
(206) 956-3000

Spokane

1330 N. Washington
Suite 5600
Spokane, WA 99201-2456
(509) 327-0200

Tacoma

3315 S 23rd St
Suite 300
Tacoma, WA 98405
(253) 382-2000

Tumwater

6500 Linderson Way SW
Tumwater, WA 98501
(800) 647-7706

Vancouver

8008 NE 4th Plain Blvd
Suite 320
Vancouver, WA 98662
(360) 256-2060

Wenatchee

630 N Chelan Ave
Suite B3
Wenatchee, WA 98801
(509) 663-9714

Yakima

3703 River Rd. Suite 3
Yakima, WA 98902
(509) 454-5160

Other Field Office Locations

Aberdeen

Bothell

Bremerton

Federal Way

Lacey



presence

Ohio

Oregon

Pennsylvania

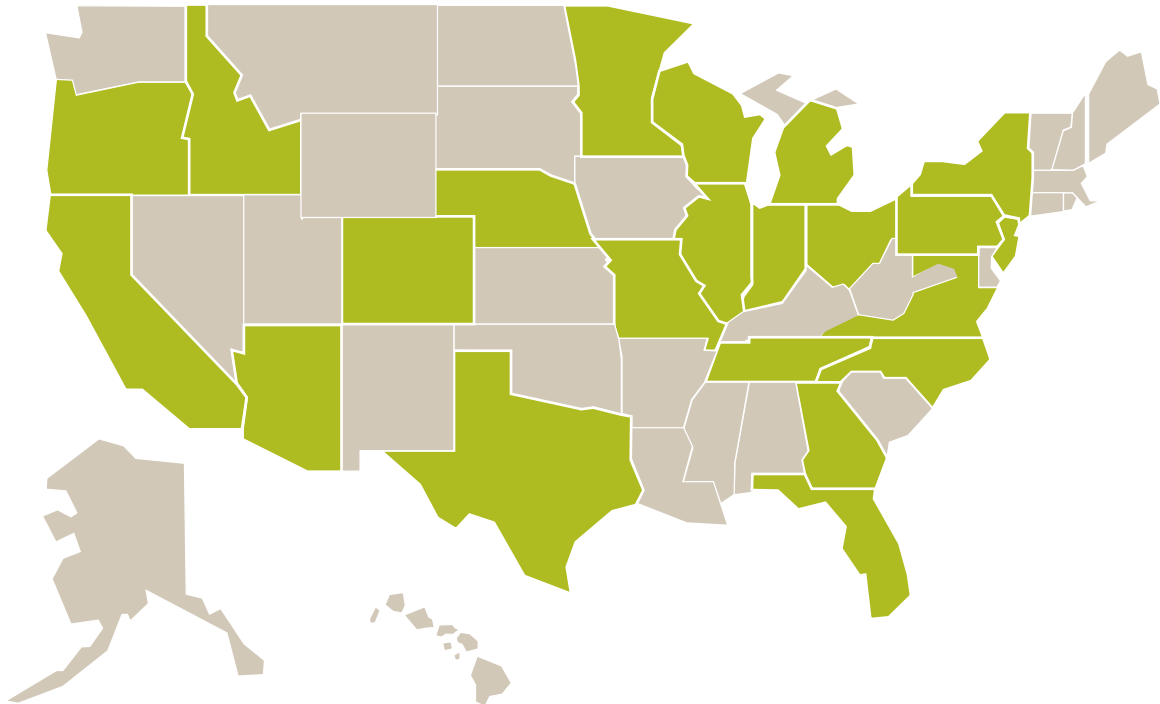
Tennessee

Texas

Virginia

Wisconsin

New York



Our Partners, Customers and Workforce

Our Partners

The Department collaborates with a variety of agencies, associations, customer groups, and governments. Washington's tax system impacts every citizen in the state. Maintaining customer relationships is critical to administering a tax reporting system based primarily on voluntary compliance. From first contacts with individual businesses to ongoing stakeholder work with major business associations, the Department works to improve its responsiveness and develop innovative services.

Department staff work with numerous groups to seek input and collaborate on administering taxes. These groups include the Association of Washington Business, Independent Business Association, National Federation of Independent Businesses, the Tax Executives Institute, Washington Bar Association, Washington Society of Certified Public Accountants, Association of Washington Counties, and the Association of Washington Cities, among others. At the national level, the Department works with the Internal Revenue Service, the Federation of Tax Administrators, the Multi-state Tax Commission and with our congressional delegation.

The Department works closely with, and provides assistance to, the Governor's Office, the Office of Financial Management, and the Legislature on tax policy issues and proposals. The Department also teams with the Office of the Forecast Council to forecast non-General Fund revenue estimates and to provide them with data for the State-General Fund forecast.

The Department recently piloted a User-Centered Design program for its web site redesign. It called upon business owners, tax preparers and other stakeholders that have used or potentially will use the web site to identify their needs. This innovative approach places our key customers at the core of our web site services as they are being developed.

The result is more effective services for our citizens. The Department is working to permanently incorporate this methodology into the upfront development of all its web based applications.

The Department's partners include the following organizations and individuals:

- > **National tax organizations** such as the Federation of Tax Administrators and Multi-state Tax Commission. The Department has been very active with these organizations in addressing state and national tax issues such as the Streamlined Sales and Use Tax Agreement, telecommunications taxation, and business activity tax legislation; Washington's interests are promoted by active participation in these national organizations.
- > **Business organizations** such as the Association of Washington Business and Washington State Society of Certified Public Accountants. The Department works with these and other associations to educate businesses and develop administrative and legislative tax policy.
- > **Other state regulatory agencies** such as the Department of Labor and Industries and Employment Security Department. Information-sharing with these agencies helps all of them improve enforcement capabilities and services to small business.
- > **Key legislative committees.** The Department works with the House Finance and Senate Ways and Means to consider tax and revenue-related legislation.

- > **Local governments** including counties and cities; the Department oversees certain statutory property tax authority related to counties, and collects and distributes local sales tax for local governments.
- > **Individual business owners.** These businesses must comply with state tax laws and often provide useful feedback to the Department on fair and equal administration and enforcement of these laws.

The Department places a high priority on maintaining and increasing these partnerships. The Department understands that upfront involvement by its partners and stakeholders leads to fairer and more effective tax administration.

Tribal Relations

The Department continues to work cooperatively with tribal governments to address and resolve taxation issues. Following the spirit of the 1989 Centennial Accord, and the 2001 legislation authorizing the Governor to enter into cigarette compacts with certain tribes, the Department has successfully enacted more than 20 cigarette compacts. In addition, there is continuous work to address other tax rules that pertain to transactions within the boundaries of tribal reservations.

Our Customers

Taxpayers are the Department of Revenue's primary customer. Additional customers include the Governor's Office, Tribes, the Office of Financial Management, Legislature, citizens and other federal, state, and local agencies and governments.

The majority of taxes the Department collects are business taxes, as opposed to personal or corporate income taxes. Therefore, the majority of its dealings with taxpayers are with business owners or their representatives. However, there are some instances, such as the estate tax, real estate excise tax, and use tax, where the Department deals directly with individuals.

Information Technology Partners

The Information Services division is committed to contributing to the state's IT strategic plan and participating in enterprise-wide solutions. We actively look for partnering opportunities with other state agencies when working on technology solutions and willingly leverage other agencies efforts in a given technology, resulting in cost savings and better service.

In collaboration with the Employment Security Department, the Department published a white paper which summarized the assessment of various options for leveraging investments in tax technology. We share data with several state, federal, and local agencies. The Department is always exploring areas for increased exchange of information (within state guidelines) to improve business processes and customer service. Support of the state's IT strategic plan is through participation in statewide forums such as the Customer Advisory Board, CIO Forums, and Information Services Board initiatives. By taking these steps, the Department is better able to shape future decisions to meet our agency's needs in the context of the state enterprise.

Business Portal cooperation among government entities is important and necessary to providing needed services. DOR is working with several state agencies to implement the Business Portal within the Access Washington (<http://access.wa.gov>) web site. The goal of the portal project is to provide one place where businesses can go to access information relevant to operating a business in Washington.

Working Together with Customers

The Department works cooperatively with numerous associations and trade organizations to enhance understanding of Washington State tax law. The Department offers guidance for businesses either locating, or expanding their operations in Washington State. While providing education on the state tax system, the Department helps determine if businesses qualify for any special programs. Department employees are also available to speak at local business meetings to provide information and answer questions about tax issues.

Taxpayers Prefer Internet, E-mail

For many taxpayers, email and the Internet have quickly become the preferred methods of communications with the Department. In response, the Department offers a variety of electronic services which allows taxpayers to update their account information, file returns, make payments, and access current forms and publications online.

While the Department continues to maintain toll-free telephone assistance, many taxpayers choose to access the Department's web site for answers to their tax questions. An increasing number of taxpayers have requested letter rulings on tax questions by email rather than traditional mail, and the ease with which they can do that has increased the volume of requests.

Our Workforce

Departmental staffing has remained fairly consistent since 1994, while the number of registered businesses has doubled during this period. Despite increasing workloads, the Department recognizes the pressure and demands for government to improve services with fewer resources. To meet these challenges, the Department is constantly seeking innovative processes and efficiencies in programs and activities.

Changes in workforce demographics, legislated changes to the state's personnel system, and economic factors add additional complexity to an already competitive employment market. The continued influx of diverse populations into the state has created the need for more diverse candidates that have both multi-cultural and multi-lingual comprehension and skills. These demographic, legislative, and economic factors continue to create significant challenges for the management of the Department of Revenue's workforce. Such **challenges** include:

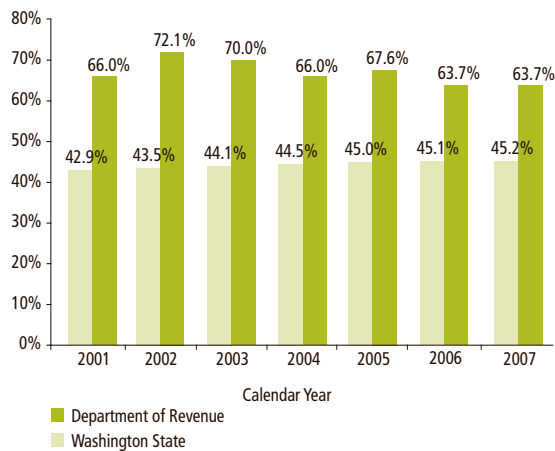
- > *Developing innovative, **competitive methods for recruiting and retaining** qualified employees in an increasingly complex job market.*
- > *Reflecting the **diversity** of the state's changing population in the composition of the Department's workforce.*
- > *Finding ways in state government to fund **competitive salaries** for workers.*
- > *Responding to changing social circumstances of both the population in general, and in the work place in order to address the growing emphasis on the **balance between work and family** that will ensure a stable, productive workforce.*
- > *Addressing the **aging of the Department's workforce** and the corresponding increase in retirements, in particular those most experienced and knowledgeable employees.*
- > *Ensuring compliance with the growing **complexity of interacting and overlapping employment laws, regulations, and court decisions** affecting every aspect of workforce management.*

These challenges demand innovative and flexible employment programs and systems in order to continue to build and retain the quality and diversity of the Department's workforce. The Department will continue to be a leader in the design, implementation, and management of programs and systems that emphasize effective employee recruitment, background investigation, selection, orientation, training, mentoring, coaching, recognition, performance management, quality development, labor relations, and succession planning.

Management and Employee Relations

Management is committed to maintaining open communication with employees. The Human Resources division coordinates much of the communication between management and labor relations groups. Employee communication is also encouraged through forums such as quality improvement committees and management site visits. The Department also conducts a biennial Employee Satisfaction Survey to assess current job satisfaction and employee expectations.

Percentage of Workforce Population Over Age 40



Access to Information

In an effort to continually improve communication with employees, the Department uses several methods for sharing information. These include publications on the Intranet – InsideRevenue and Messages from the Director, division web pages, e-mail, telephones, voice mail, staff meetings, and internal division correspondence. Tax information is also available to employees via the Intranet – with manuals, rules and regulations, and research tools such as Taxpedia readily accessible. Employees also receive special notices, press releases, and pre-released taxpayer publications.

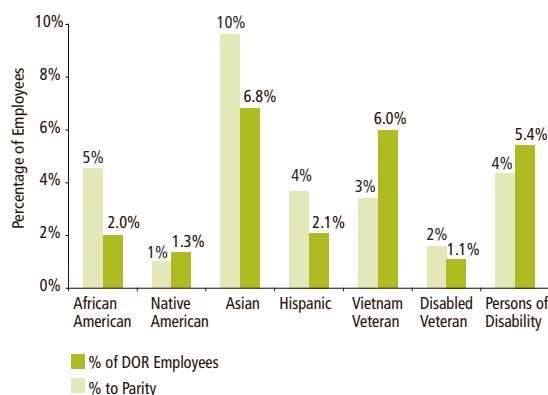
Diversity

The composition of the state workforce continues to change. Diversity strengthens the Department and improves our ability to serve the public by adding a broader range of ideas and perspectives within a rich tapestry of cultural history and experience. To achieve diversity, the Department has cultivated a work environment that values and promotes cross-cultural respect, understanding and inclusion. From this foundation of diversity, the Department seeks to broaden its workforce diversity profile through a concerted program of recruitment and retention as well as outreach and collaborative efforts. In order to fully serve its diverse constituents, the Department has also made it a priority within this Strategic Business Plan to emphasize its Multi-lingual and Multi-cultural outreach efforts in order to better communicate with all taxpayers.

Recruitment

To focus on key recruitment issues and uses innovative methods for recruiting a qualified, talented, and diverse workforce, the Department has developed a “Recruitment and Retention Plan.” Specific actions outlined in the plan include expansive networking and marketing, as well as the use of nontraditional, proactive recruitment methods. The Department also participates in job fairs sponsored by universities and community-based organizations, uses extensive recruitment contact networks to identify qualified candidates, and uses the services of the Department of Personnel. College recruitment programs, student interns, and in-training designations are all used as flexible recruitment tools to access a broad pool of qualified, diverse candidates.

2007 Diversity Profile



Appraisal of External Environment

National Economy

The outlook for the U.S. economy remains weak. Real Gross Domestic Product (GDP) increased only 0.6 percent in the fourth quarter of 2007, after increasing 4.9 percent in the third quarter. Residential investment declined at an annual rate of 25.2 percent. This was the eighth consecutive quarter that residential investment has fallen, and the drop of 25.2 percent is the largest decline since 1981.

The U.S. economy lost 80,000 payroll jobs in March 2008. Employment has now declined for three consecutive months. In addition, downward revisions to the January and February numbers confirm a weakening labor market. The U.S. unemployment rose from 4.8 percent in February 2008 to 5.1 percent in March. The March unemployment rate is the highest since 2005.

Consumer's confidence in the economy continues to deteriorate. The Conference Board reported that its Index of Consumer Confidence fell again in March. The index has declined three consecutive months and is at its lowest level since March 2003.

The U.S. economy experienced a significant downturn during the first quarter of 2008, with this downturn spreading beyond housing as credit tightened and high commodity prices squeezed spending power. However, monetary and fiscal stimulus is expected to produce a modest rebound in growth during the second half of the year. The export outlook looks positive, and must remain so, if the economy is to avoid a recession.

Washington State Economy

The state economy is expected to outperform the U.S. economy. Propelled by continued strength in construction, aerospace, and software, Washington non-farm payroll employment grew 2.5 percent in 2007 following a 3.0 percent increase in 2006. Growth in these key industries is expected to slow; however, the Economic and Revenue Forecast Council's February 2008 forecast calls for employment growth rates:

2008	2009	2010	2011
1.2%	1.4%	1.8%	1.7%

Washington personal income growth:

2006	2007	2008	2009	2010	2011
8.3%	7.5%	5.3%	5.4%	5.9%	6.1%

Tighter lending standards and changing consumer confidence are expected to depress the single-family housing market despite lower mortgage interest rates, but continued strong net migration into Washington should support multi-family activity. The Council expects total housing permits to decline in 2008 before bouncing back in 2009, 2010, and 2011. Inflation, as measured by the Seattle CPI, increased to 3.9 percent in 2007 from 3.7 percent in 2006. Core inflation (excluding food and energy) was slightly more moderate but increased to 3.5 percent in 2007 from 3.3 percent in 2006. Energy costs will be roughly neutral in 2008, and declining energy costs in the next three years should help lower overall inflation in those years. The slowdown in the overall economy should also help restrain core inflation. As a result, the Council expects inflation rates of:

2008	2009	2010	2011
3.4%	2.4%	2.5%	2.2%

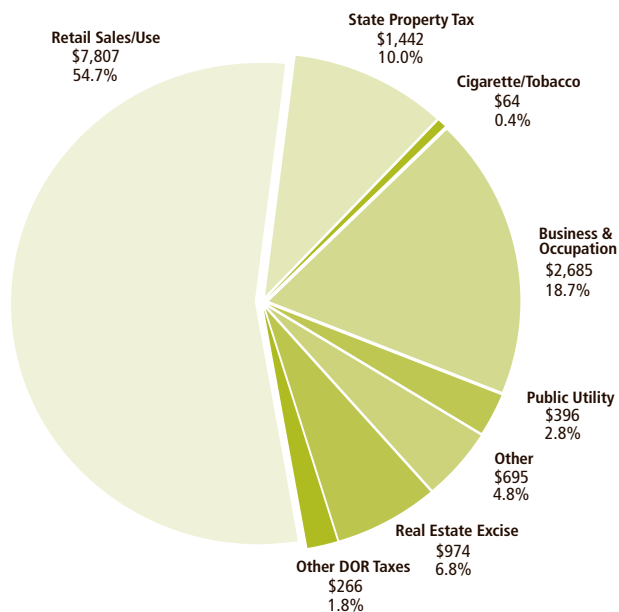
Washington State Revenue Forecast

General Fund-State (GFS) revenue growth was very strong in the 2005-07 biennium. Revenue increased \$4.4 billion (18.7 percent) from the prior biennium, which was the strongest growth since the 1989-91 budget period. Revenue growth is expected to slow to 6.1 percent during the 2007-09 biennium. Tighter credit, tougher lending standards, and a rising inventory of unsold homes are forecast to prolong the correction in the residential housing market.

The weakness in the housing sector, along with a little slower employment growth, is expected to further erode confidence and weaken consumer and business spending. The February 2008 GFS revenue forecast for the 2007-09 budget period is \$29,462.9 million, down \$423.4 million from the November 2007 forecast. Of the \$423.4 million reduction, \$231.9 million is due to the lower forecast for the real estate excise tax. The forecast for the 2009-11 biennium is \$31,917.9 million, an 8.3 percent increase over the 2007-09 biennium.

Washington State General Fund Revenues

Fiscal Year 2007 - Dollars in Millions
State Revenues*



* Excludes federal grants-in-aid, restricted funds and operating fund transfers. Source: "2007 Comprehensive Annual Financial Report," Office of Financial Management. GAAP basis; the figures may not agree with other tables in Department of Revenue reports which generally reflect cash collections.

Business Climate

By most accounts, Washington State has a strong and innovative economy and a positive business climate. Forbes magazine recently reported that Washington has the fifth best business climate in the U.S. Washington was ranked in the top five for the quality of its labor force, including educational attainment; the state's regulatory environment and projected economic growth. The Small Business & Entrepreneurship Council ranked Washington the fourth-best state in its Small Business Survival Index for 2007, and Washington ranked sixth-best in the Kauffman Index of Entrepreneurial Activity for 2004. Washington ranked fourth-best in the 2007 State New Economy Index, which measured 26 indicators of a state's ability to foster success in the new global economy.

Washington ranked 11th-best in the Tax Foundation's 2007 Business Tax Climate Index. Other rankings treat Washington less kindly. The Committee on State Taxation ranked Washington as having the eighth-highest effective tax rate on business, principally due to its heavy reliance on business and occupation taxes. Washington businesses do pay a higher initial share of taxes than individuals compared to other states. However, overall tax burdens on both households and businesses are low compared to most other states. In the U.S. Census Bureau's latest comparisons, Washington ranked 37th nationally in taxes as a percent of personal income. In any event, taxes appear to be less of a factor in business climate than access to markets, a good transportation infrastructure, the availability of skilled workers and quality of life.

Another set of measures is the annual Washington State Economic Climate Study published annually by the Economic and Revenue Forecast Council. The study measures various economic performance indicators relating to income, employment, population, research and development expenditures and foreign trade. It also includes economic climate benchmarks such as quality of life, education and skills in the workforce, infrastructure and the cost of doing business. Altogether, 41 indicators are presented. In the latest

edition, published in October 2007, the results generally were positive. In terms of economic performance, the state improved in most areas over the previous year's assessment. Washington ranked:

- > 9th nationally in total employment growth rate
- > 13th in median household income
- > 16th in per capita personal income
- > 6th in per capita personal income growth rate

Another way to assess the business climate may be in the growth in registered businesses over the years. The number of registered businesses increased from 385,405 in Fiscal Year 1994 to 774,295 in Fiscal Year 2007, a 100.9 percent increase. During this same period, their taxable gross income also more than doubled.

Local Tax Administration Obligations Increasing

Local option sales and use taxes continue to increase in both number and type, and continue to be a substantial revenue source for local taxing jurisdictions. More than 320 taxing jurisdictions exist in Washington at this time. New taxing jurisdictions continue to be formed that create tax boundaries in nontraditional ways. These include, community empowerment zones, lodging districts, and transportation districts.

Local governments want more data from businesses to ensure taxes are distributed accurately and fairly. The Department is working towards providing more local tax administration information via online applications for our local government customers.

Washington's excise tax code was adopted in 1935 when the United States had primarily a manufacturing economy.

Complexity of Tax Law Drives Demand

In 1935, when the U.S. was primarily a manufacturing economy many businesses operated solely within Washington and the taxability of their activities was clear. Seventy-three years later, the United States has shifted to a service economy and many businesses operate in multiple states and over the Internet. Our 1930s tax code does not adequately address the borderless economy. At the same time, competition among the states to attract and retain desirable businesses has become intense. Numerous tax credits, deductions, and exemptions have been enacted over the years to address Washington's business climate, and changing business realities on a piecemeal basis. Each legislative session results in new amendments to the tax code further complicating it. This has resulted in a complex tax code. Taxpayers rely on the Department to provide clear, concise rules and instructions. Meanwhile, the continuing globalization of business has multi-state and multi-national businesses demanding more uniformity in tax laws to reduce the burden of compliance.

Businesses indicate that accounting for local tax, even in its current form, is very costly.

Washington State is participating in a national effort, the Streamlined Sales Tax Project, to streamline the reporting of sales taxes by making the different states' sales tax reporting structure more uniform. Some of these efforts will require changes to current methods of local tax administration, principally a shift from origin- to destination-based sourcing of local sales tax on shipped goods. The Department is assisting retailers in making this transition.

The Department also advises counties on property tax issues, which has been of growing importance amid citizen initiatives to limit property taxes. It also analyzes county assessor operations, determines ratios needed to set the state school levy for each county, and works with counties on property tax policy and legislative issues.

Many counties are experiencing funding issues and increased difficulty in the administration of the tax, putting additional reliance on the Department.

Assessment of Internal Capacity and Financial Health

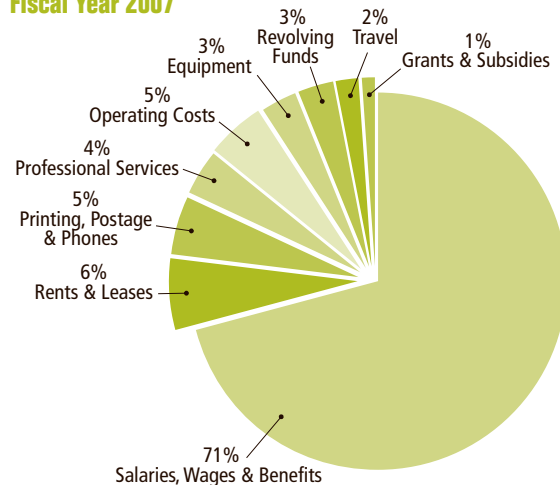
Financial Health

As the state's principal tax collection agency, Department of Revenue is almost entirely funded by the state's General Fund. Approximately 70% of the Department's budget is salaries and benefits. Other essential expenditures are for printing and postage of tax returns; contracts with out-of-state auditors; auditor travel; staff training on emerging tax law issues and legislatively approved statutory changes; and technology to keep up with customer's increasing expectations for efficient and effective service delivery. Funding these essential services helps to maintain a high level of voluntary compliance and preserves the Department's ability to focus on revenue collection for state and local governments.

Overall, the Department remains in good financial health. The Department is deliberate in making strategic investments that optimize efficiencies and drive down overall costs. This is reflected in our overall cost of collections being the lowest in over ten years. However, because the majority of the Department's budget is dedicated to these essential expenditures, any reductions in the Department's budget profile quickly begins to impact staff resources and service delivery due to limited flexibility.

During the 09-11 biennium, the Department will focus on finding operational efficiencies through migration of outdated IT processes, reducing facility costs and meeting performance expectations. The Department's budget will also include a request to re-establish funding for the equipment replacement dollars lost in the FY 07-09 biennium. Further budget reductions to the Department could result in the need to divert resources from other areas, which could negatively impact service levels including revenue collections and erode the Department's ability to operate effectively.

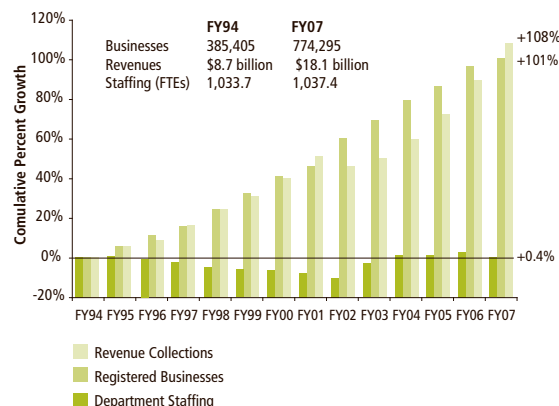
**Cost by Category of Expenditure
Fiscal Year 2007**



Staffing

The Department's staffing level has remained consistent over the past 13 years while the number of registered businesses has increased about six percent each year. Despite the growth in registered businesses, the Department recognizes the pressure and demands for government to improve services with fewer resources. To meet these challenges, the Department is constantly seeking innovative processes and efficiencies in programs and activities. Although the Department has been successful at keeping up with workloads without significant staff changes, we have now reached the point that additional staff will be necessary to maintain service levels. The 09-11 budget request will include several workload related funding requests.

Registered Businesses, Revenue Collections Double Over Past 13 Years While DOR Staffing Remains Flat



Workforce Issues

The Department continues to periodically experience retention issues, particularly in addressing the aging of the Department's workforce and corresponding increase in retirements. As a result, the Department is losing its most experienced, knowledgeable employees. The Department is currently developing a Succession Plan with tools that will address preparing employees for future promotional opportunities in critical and hard-to-fill positions.

Equipment and Facilities

When employees are equipped with the necessary tools to do their jobs, productivity and morale is enhanced. Over the years, the Department has focused on upgrading equipment, and remodeling and relocating facilities to better meet the needs of customers and staff. The Department will continue to assess the condition and usefulness of facilities, supplies, equipment, and technology to make replacement decisions based on need and available resources.

Facilities Planning

The Department has three main offices located in Thurston County, and 16 field offices throughout Washington State. All of these facilities are leased space, and although the number of field offices has remained fairly constant over the last 10-15 years, the location of many offices has changed to accommodate the needs of taxpayers and staff. Field offices outside of Thurston County house approximately 40 percent of the Department's staff.

Before the end of 2011, contracts for 17 of our leased offices will expire. These offices will either need to renew their current leases or relocate. The remaining two offices have leases that expire beyond 2011.

The Department's programs and functions are relatively stable. However, staffing levels can vary in response to legislative changes making it difficult to accurately predict our future space needs. The Department's facility maintenance and operational needs are not considered pressing at this time.

Technology

Since information technology (IT) is a rapidly changing field, the Department's Information Services (IS) division is continually looking to improve its service delivery while providing an infrastructure that supports the Department vision, mission, and business needs.

Opportunities exist to implement IT industry process best practices and address systems that are grounded in older technology. While these systems meet the needs of the current business functions, they could be improved with modern technology to better meet the increasing demands of our customers and taxpayers. As improvement investments are considered, key areas of focus will include IS internal capacity needs, such as standardized processes, knowledge, skills and abilities of staff, and infrastructure.

Infrastructure

In order to ensure the necessary IT infrastructure support is in place for the business functions, the IS division is moving towards a standard refresh cycle for most IT equipment. As a general rule, a three to four year refresh cycle has been established for personal computers and servers. A long term strategy is to consolidate the number of servers to increase their efficiency and minimize support requirements.

The refresh cycles for the various IT infrastructure components can vary depending on hardware age, minimum requirements of the applications, warranty status, and whether or not there's a need for more computing power. Close coordination with the Department's strategic business and budgeting plans are required to ensure that the IT infrastructure does not lag behind the needs and expectations of customers and staff.

Other components of the infrastructure require replacement on a less frequent basis but often present more of a challenge. One such item is the agency owned Non-Stop (Tandem) mainframe multi-processor high performance computer which hosts many of the Department's mission critical applications. Determining the appropriate course of action for this crucial infrastructure is an IS priority.

IS Process

Industry drivers have changed the usage of information technology: Utilization of IT was once a privilege status, where business processes were enhanced by new technology development; it is now a pressured status, where IT is a utility that fuels the functions of business. This pressured status requires that IS transition from the completion of tasks associated with prioritized service requests to provision of excellent service throughout the whole Department by the high quality products we deliver.

The Department is investing in centralization of special skills such as business analysis and quality testing in a manner similar to the database management expertise we have cultivated in the past. Improving business analysis talents promotes increased unification of technology with business activities. This includes a refinement of our project management methodology to optimize on deliverables.

With emphasis on better IT standards, the Department now has the incentive to adopt more industry best practices and patterns.

Working closer with customers and understanding their business requirements yields IT solutions that meet their needs. To help recruit and retain a quality workforce, our strategy is to build a learning environment for our employees in which they are challenged and supported.

Emergency Preparedness

The Department publishes and distributes an Emergency Plan to all employees. This plan contains checklists and instructions to be followed in the event of an emergency. Each building also has employee representatives who are responsible for coordinating activities in the event of emergency or other situations which are outlined in the emergency plan.

Also, the Department completed the Continuity of Operations Plan to ensure continued operation if faced with an emergency. This plan includes a section that addresses pandemic influenza and how the Department will manage and maintain essential functions during an epidemic.

Enterprise Risk Management

The Department strives to incorporate Enterprise Risk Management into its business practices. The application of enterprise risk management principles and processes will assist the Department to proactively assess and manage risks, allowing for effective and efficient allocation of resources. As a part of ongoing programs and activities, the Department routinely evaluates internal controls, and takes actions to minimize the risk of harm or liability for employees and clients, as well as damage to equipment.

Ongoing efforts include routine supervisory and management training, conducting mandatory sexual harassment and ethics training, defensive driving courses for employees driving state vehicles, training and maintenance of automated external defibrillators within all offices, administration of an annual agency safety conference, and conducting criminal background checks on new hires.

Achieving Results by Goal

*Make Conducting Business with the
Department as Clear, Simple, and Efficient
as Possible*

*Develop, Retain and Value a High Quality,
Diverse Workforce*

*Promote Fairness and Consistency in the
Development and Application of Tax Law*

*Promote Correct and Timely Reporting
and Payment of Taxes*

Make Conducting Business with the Department as Clear, Simple, and Efficient as Possible

Current and Ongoing Activities

Taxpayer Information and Assistance

The state's tax system relies on businesses to voluntarily report and pay their taxes. The Department promotes voluntary compliance through information and education because it is the most efficient method of tax collection. Several key programs provide taxpayers with easily accessible, timely, and accurate information so they clearly understand their tax reporting responsibilities.

One-On-One Customer Service

The Department provides personal, one-on-one assistance from its 13 statewide local offices. Taxpayers also have the option of calling the Department's toll-free Telephone Information Center for direct customer service or access to automated services such as fax-on-demand forms and instructions, Tax Express for prerecorded tax information, and Tele-file for reporting "No Business" activity. Customer assistance at both the local offices and toll-free phone center ranges from accepting tax payments to assistance completing tax returns. The Department also has a Small Business Liaison who serves as a point of contact for small businesses wanting guidance and assistance. In addition, workshops on various tax topics are offered to businesses across the state regularly.

Forms and Publications

The Department produces a wide range of forms and publications. Publications include the semi-annual Tax Facts newsletter, Business Tax Guide for new businesses, a host of fact sheets on business, property and miscellaneous taxes and other topics, special notices, and tax reports and studies.

Plain Talk

For the last several years, the Department has employed Plain Talk in its correspondence and communication with customers. Executive Order 05-03 urged other state agencies to emulate the Department's successful Plain Talk principles and practices. Plain Talk remains an active initiative within the Department; opportunities are sought to ensure that messages – whether written or electronic – are clear, concise, and visually easy to read.

Web-Based Information

A complete library of tax information is easily accessible on the Department's web site. This includes online workshops and tutorials, tax laws, rules, forms, tax guides, publications, reports, studies, and information about starting a new business. It also includes popular online applications such as E-file, Unclaimed Property search, Business Records database and the Tax Rate Lookup Tool.

User-Centered Design

When the agency re-developed its web site in 2007, the goal was to create a site that truly served customers, making it easy for them to do business with the Department. To do so, the design team put the customers at the center of the design process by asking users where they would expect to find information on the web site. The data gathered from this usability test was used to fine tune the site.

Reporting and Payment of Taxes

E-Business

The Department continues to look for ways to make the reporting and payment of taxes easier. A major cornerstone of this strategy has been the introduction and expansion of electronic filing (E-file) and electronic payment options. Since its inception in 1998, the number of businesses using the E-file application for filing and paying their combined excise tax return has steadily increased. During fiscal year 2007 just over 43 percent of tax returns were filed electronically. Payments associated with E-file can be made by Electronic Funds Transfer, internet check, credit card, an inter-agency payment, or with a paper check. Taxpayers using E-file have online access to business-specific forms, rules and regulations, can take advantage of online edits for calculation errors, and experience greater convenience.

Simplification of Tax Reporting

Other efforts to make tax reporting and payment easier have included simplifying and customizing tax returns, and consolidation of business and occupation tax rates. Years ago a major breakthrough that continues to benefit taxpayers and the Department was the establishment of an “active non-reporter” status for taxpayers. Being an “active non-reporter” allows a business to be registered, but eliminates the requirement for filing a return when reporting thresholds are not met and there is no tax liability. Nearly 300,000 taxpayers take advantage of this reporting status. Other efforts have included pursuing better ways to allow timber and excise tax taxpayers to clear an outstanding return due to a period of no business activity.

The Department continues to look for ways to make the reporting and payment of taxes easier.

The Department has also implemented online payment of receivables and other web-based applications to make conducting business easier. These applications have included work on the online master application, local tax coding online, unclaimed property claims via the Internet, secure messaging services, and tax account information changes via the Internet.

Demand for Information

Greater reliance is being placed on automation and electronic means of passing information between external and internal users, as well as the provision of improved data manipulation and analysis tools. Technology makes it possible to integrate and manage information better to help businesses and government seize opportunities to improve business activities. In turn, this greater reliance on technology creates a need to manage information in terms of volume, security, timeliness, and integrity and at the same time, deal with privacy and legal considerations of electronic media via the use of Internet, Intranet, and Ethernet technology.

Customer Expectations

Citizens and businesses expect the Department to be able to conduct business on their terms, using technology to make business interactions with the Department simple and efficient. In response, the Department will continue to design and develop new and better technology solutions to meet this demand when financially feasible. Challenges to creating such solutions include the rapid changes in the technological environment and the different expectations that exist among different customer groups. Taxpayers served by the Department range from the small entrepreneurial business to large multinational companies, with the majority being small businesses. Therefore, expectations range from basic needs for paper-based processing to the most sophisticated technology solutions. In order to meet this broad range of expectations, the Department must work closely with business partners to develop appropriate, flexible tools.

Security Concerns

Expanded use of the Internet and other technologies to simplify doing business with the Department also increases the need for more sophisticated security measures. The demand for more online public services requires that technology is deployed to ensure secure communications for the public, as well as making information accessible only to authorized personnel. With the ever increasing frequency of more sophisticated virus attacks, hacker intrusions, Spyware, and spamming, it is imperative that organizations take necessary precautions to ensure business is not disrupted and trust is maintained with customers.

Tax Law Simplification

The Department of Revenue's mission includes a commitment to advocate sound tax policy. To this end, the Department strives to be constantly alert to opportunities for simplifying tax laws in order to make it easier for taxpayers to understand their obligations and pay their taxes. Through its participation with national organizations, such as the Federation of Tax Administrators and the Multi-State Tax Commission, the Department continues to be involved in national simplification efforts to increase uniformity and efficiency of tax systems.

The Department also works with stakeholders to identify areas of tax law that are confusing and need simplification. Proposed legislative solutions are offered for consideration by the Governor's Office and the Legislature.

Multi-lingual and Other Assistance Programs

The Department serves all non-English speaking taxpayers through volunteer employee interpreters who assist taxpayers in person and over the phone. A limited number of publications are available in Spanish, Chinese, Tagalog, Korean, Vietnamese, and Russian. Special services are also available for taxpayers with speech, hearing, or visual impairments. The Department continually monitors its customers' changing needs and makes every effort to assist them with available resources. Major focus areas in the Department's Multi-lingual Outreach program include teaching the basics of occupational Spanish to employees, holding taxpayer workshops in other languages, and establishing relationships with various ethnic chambers of commerce and other civic groups statewide.

The Department developed numerous tools to assist businesses - from an online address/map lookup tool calculator to providing city and county tax rates in multiple formats.

Streamlined Sales Tax

The 2007 Legislature passed legislation that required several changes in order for Washington to become a full member of the national Streamlined Sales and Use Tax Agreement. The biggest change was for Washington retailers that shipped or delivered goods within the state. Starting July 1, 2008, sales tax is based on the location where goods are received instead of where they are delivered from. From the summer of 2007 through 2008, the Department embarked on a comprehensive communication and education effort to ensure affected retailers were aware of the change and its impact. This included informational mailings, a media campaign with visits to editorial boards, a web page with in-depth information and an online video, in-person business visits, more than 140 workshops and speaking engagements across the state, and a consumer awareness campaign.

While Department staff members were communicating this change, they were also soliciting information on specific business challenges to find out how the agency could direct its resources to better assist retailers. The Department listened to its customers and developed several tools to assist businesses:

- > *An online tax rate lookup tool with optional calculator feature.*
- > *An online tax rate lookup tool for handheld devices such as PDAs and Blackberries.*
- > *Downloadable databases of addresses or ZIP+4 codes and their corresponding location codes.*
- > *Lists of tax rates and location codes in various formats, including QuickBooks and Excel.*
- > *An Excel worksheet that tracks sales by location, calculates totals, and summarizes sales.*
- > *Paper maps of taxing jurisdictions by county.*

Throughout the effort, the Department met regularly with representatives of the business community to ensure the agency's efforts were hitting the mark. Separate meetings were held with representatives of cities and counties to develop policy governing the many aspects of mitigation for jurisdictions that will see revenue losses because of the sourcing change.

Strategies for Progress

Objective

Increase Taxpayer's Ability to Report and Pay Their Taxes Easily

Strategies

- > **Integrate User-Centered Design in Agency Applications** – Design of an on-going process that will ensure web applications include the needs of the end-user during the design phase; ensure adequate resources are available to conduct usability research and testing; and increase customer satisfaction and productivity.
- > **Assess Long-Term Service Delivery and Facilities Needs** – Develop a plan that helps the Department of Revenue optimize its customer service delivery with more efficient and cost-effective Department field facilities. The plan will take into account goals that are affected by field presence as well as statewide initiatives on leasing and facilities planning.
- > **Increase Outreach to Small Businesses** – In a collaborative effort with other state agencies, Small Business Development Center and the Governor's office, provide resources to assist and address the specific needs of small businesses that make it easier for them to succeed in Washington.
- > **Increase Outreach Through Multi-lingual Efforts** – As Washington's diversity landscape changes, the Department must adapt by dedicating more resources to help the growing number of non-and limited-English speaking taxpayers understand their tax obligations.

Objective

Increase Organizational Efficiency and Continuity Through Process Improvements and Technology

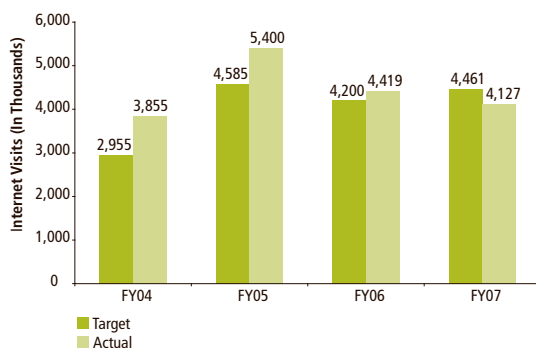
Strategies

- > **Enhance the Geographic Information System (GIS) and Data Management System** – Use GIS to merge location and cost data about taxable property with taxing district boundaries to facilitate accurate distribution of centrally assessed property tax values.
- > **Partner with Local Governments** – Establish an internal Local Government Core Committee to focus on local tax issues and local government information needs. The program will include establishing a local affairs liaison to work with the advisory committee and local governments. The local government web site will be used as a central mode of providing information about local taxes administered by the Department.
- > **Study Information Technology Modernization Needs** – Determine the approach needed to successfully migrate identified agency critical legacy information systems.
- > **Manage Electronic Records** – Develop a system to preserve, search, retrieve and dispose of electronic records.

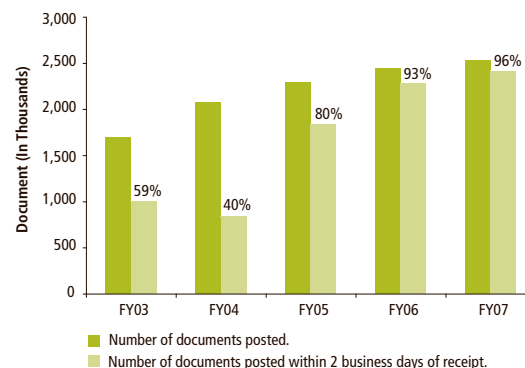
Measures of Performance

- > Answer 80% of incoming calls requesting personal assistance within one minute (see page 57)
- > Increase the number of visits to the internet site
- > Increase the number of e-filed returns (see page 56)
- > Survey callers each month who used the automated system and those receiving personal assistance from the telephone center
- > Maintain or reduce the cost of collecting revenue (see page 54)
- > Process and post tax returns within 48 hours of receipt
- > Answer 75% of written requests for tax information within 10 days
- > Reduce refund processing times

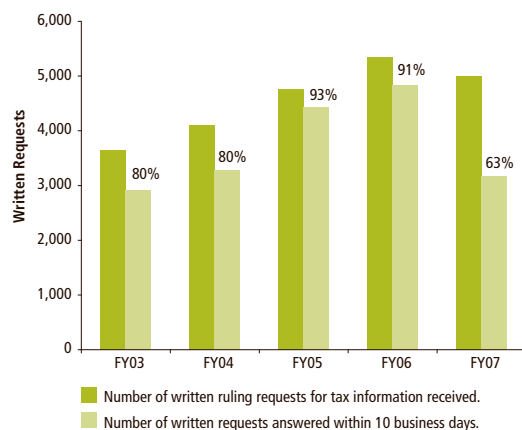
Increase the Number of Visits to the Internet Site



Process and Post Tax Information Within 48 Hours of Receipt



Answer 75% of Written Requests for Tax Information Within 10 Days



Develop, Retain and Value a High Quality, Diverse Workforce

Current and Ongoing Activities

Training

Change can be demanding, and it's also the only constant in business. The Department recognizes that on-going training is needed to keep employees up-to-date on the latest developments in their respective fields. Whether the change occurs within the culture of the organization, in the information technology arena, or policies and law, the Department is committed to promoting an environment that supports continuous employee self-improvement.

It is an expectation that all employees will participate in training opportunities. Employees complete an annual training and development plan as a component of the performance evaluation process in tandem with their supervisor. These individual plans provide an opportunity for managers and employees to focus on training based on job responsibilities and individual development goals, as well as linking the employee's resulting performance to Department goals, strategies, and initiatives.

To manage and document employee training, the Department administers an online automated training registration system. The Department also partners with the Department of Personnel to offer specialized "E-learning" educational opportunities for all employees.

Training and development opportunities are identified and communicated to Department staff that focus on targeted competencies and required training. Training and development are of high quality, and reflect an effective use of available resources. In-house training resources include:

- > *Leadership and management development*
- > *Effective supervision*
- > *Ethics*
- > *Confidential tax information*
- > *Team facilitation*
- > *Project management*
- > *Workforce management*
- > *Communications skills*
- > *Interpersonal skills*
- > *Diversity*
- > *Sexual harassment prevention*
- > *Information technology courses*
- > *Safety and wellness courses*

Employees are also offered opportunities for individual cross training, job rotations, and shadowing assignments. New employee orientation, new supervisor orientation, and the Department's formal cross training courses are also offered to employees to help familiarize them with various Department functions. The Department contracts with the Department of Personnel and other outside vendors when training resources are not available in-house.

Development Library

The Human Resources division maintains a development library that is available to all employees. This library contains books, tapes and videos, career counseling services, and information about tuition reimbursement and tuition waiver programs.

Succession Planning

The Department is developing and adopting a comprehensive strategic succession plan with an emphasis on cross training, mentoring, and the development of leadership, supervisory, and management skills. The Department's succession plan will foster the continued enhancement of leadership and performance-based workforce culture, a deliberate means of knowledge transference for core Department business functions and processes, and offer guidance for employees in their development and competitiveness for future opportunities.

Performance Management

Through its performance management program, the Department strongly emphasizes the link between individual employee training, development, and performance, to the achievement of Department goals, objectives and strategies. This program includes conducting employee performance evaluations on a defined schedule with employees and supervisors to reinforce management accountability and results. Supervisors and managers are provided with needed tools and resources to guide and lead employees toward achievement of individual, unit, and Department goals.

Alternative Work Arrangements

Alternative work arrangements assist the Department in recruiting and retaining skilled employees when such arrangements are congruent with and support business needs. Alternative schedules, flex hours, and flex place agreements may offer greater flexibility. Commute trip reduction is an added benefit of the flexible arrangements. These programs are supported by the guaranteed ride share program, bus and vanpool reimbursement, and additional incentives.

Employee Recognition

Recognition increases employee retention and motivation by fostering individual and collective pride in the Department. The Department uses many formal and informal programs to recognize its talented workforce. The annual Department Recognition Awards, in place since 1993, gives employees the opportunity to honor colleagues with six categories that reflect Department values:

- > *Leadership*
- > *Customer service*
- > *Outstanding employee*
- > *Teamwork (permanent teams)*
- > *Project team (temporary teams)*
- > *Field office*

Divisions also have independent recognition celebrations on a regular basis.

Safety and Health

The personal safety and health of each employee is of primary importance. Prevention of on-the-job injuries and illness is a high priority. The Department continues to comply with OSHA/WISHA applicable regulations, ensuring all workplace accidents and incidents are evaluated and immediately resolved. Safety committees consisting of both management and employee representatives are present in all field offices and Thurston County buildings. Regular meetings are held to evaluate safety issues and recommend solutions.

Also, the Department continues to offer various safety-training courses, such as first aid, fire extinguisher handling, mail threat awareness, emergency preparedness, and office ergonomic workshops.

The employee wellness program promotes overall health and fitness. All employees are encouraged to take the online Health Risk Assessment which allows employees to take charge of their health and wellness. E-mail messages, posters, and flyers regarding smoking cessation programs, flu prevention, domestic violence awareness, and other

...safety and health of each employee is of primary importance.

Using the Governor's recent initiative, Improving Workplace Safety for State Employees, the Department has implemented a safety action plan matrix. Through this effort, the Department concentrates on improving communication to employees regarding management's commitment to safety. This guideline ensures the Department's safety programs are more visible to employees, increases employee involvement, acknowledges those employees currently participating in the safety program, and ensures all safety programs and activities are consistent throughout the Department.

To further enhance this initiative:

- > *The Department has made access easier to our safety and wellness web site.*
- > *The Director regularly sends out a quarterly e-mail to all employees regarding safety issues.*
- > *Supervisors routinely review safety policies and procedures with staff.*
- > *Employees are encouraged to take a safe driving course.*
- > *The Department holds an annual safety conference for all safety representatives.*

health and wellness programs are shared with Department employees on an on-going basis. The Department continues to be proactive in providing ergonomic assessments to employees to determine the most suitable, cost-effective work space design. Based on such assessments, workstation modifications are made and equipment provided in an effort to reduce work-related injuries and illnesses.

Strategies for Progress

Objective

Increase Employee's Knowledge, Skills and Abilities and Provide a Safe, Healthy Work Environment in Support of the Department's Mission

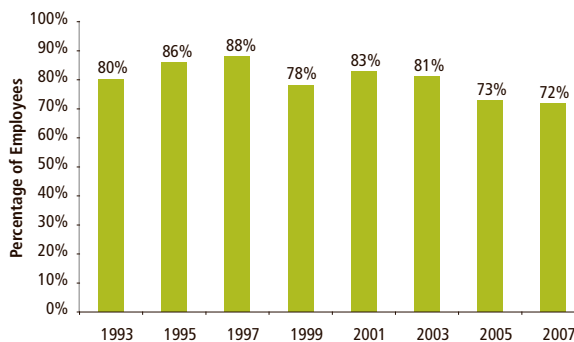
Strategies

- > **Develop a Learning Management System** – Centralize and enhance training by providing up-to-date, effective learning and education information to employees and supervisors. This system will allow reporting capabilities to ensure compliance with required training, provide increased on-line training opportunities, and provide a formal mechanism to centralize Department learning and development efforts in support of the Department's succession planning efforts.
- > **Focus on Succession Management and Workforce Development** – Workforce analysis to focus on future Department needs, and knowledge transfer to focus on the next generation of Department leaders. Design and implement a succession planning framework for workforce development and management, including the creation of a Leadership Academy.
- > **Improve Employee Safety** – Employee safety is a priority for the Department of Revenue. As needed, the Department's safety process and program will be enhanced so the organization can proactively address safety for all employees across the state. This revised emphasis will include input from staff and existing safety committees in the form of recommendations, information and improvements in order to make the Department's safety program more robust and consistent.
- > **Implement Diversity Program** – Develop and implement a systemic program that will increase the diversity of the next generation of the Department's workforce and support long-term retention of employees. Some highlights of the program may include:
 - (1) communication of diversity goals;
 - (2) creation of an intranet resource page, and
 - (3) increased focus on retention.

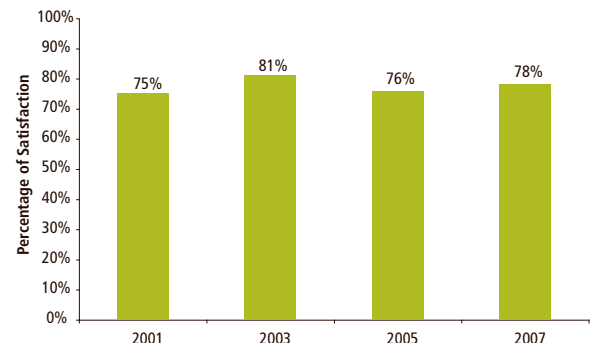
Measures of Performance

- > Reduce the Department's overall turnover rate
- > Achieve and maintain a diverse workforce (see page 14)
- > Training statistics
- > Employee Satisfaction Survey – Overall satisfaction
- > Percent of employees with current performance evaluations
- > Percent of employees with current individual development plans
- > Employee Satisfaction Survey – There are sufficient health and safety measures to ensure a safe work environment

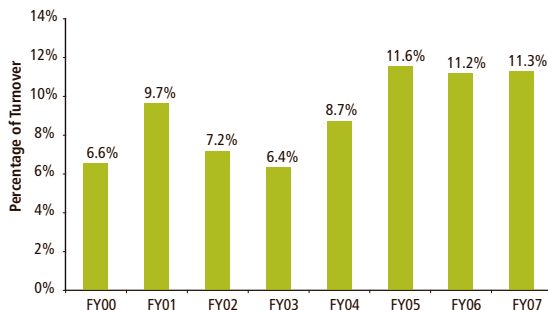
Percent of Employees that Agree there are Sufficient Health and Safety Measures to Ensure a Safe Work Environment



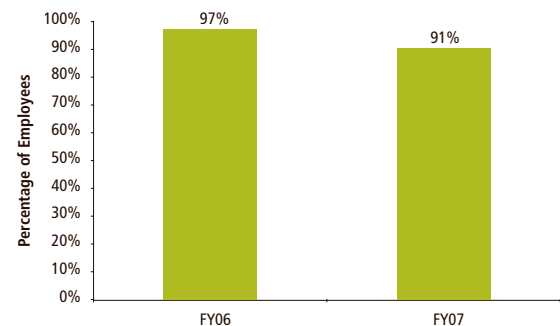
Employee Satisfaction Survey - Overall Satisfaction



Department of Revenues Turnover Rates



Percent of Employees with Current Individual Development Plans



Promote Fairness and Consistency in the Development and Application of Tax Law

Current and Ongoing Activities

Tax Rules Review and Development

The Department strives to keep its rules current by reviewing 100 percent of its rules over a four year period. During the course of the review pertinent laws, court decisions, Appeals division determinations, and other available information are researched to determine if the rule is current or needs amending. Also, new legislation is reviewed after each legislative session to determine if there is an immediate need for new rules or amendments.

When an amendment is necessary, the Department encourages stakeholder input through formal rule making stakeholder meetings and other avenues. Stakeholder input provides the Department with a better understanding of tax issues and business practices, which enables the Department to provide more useful information and guidance in developing the rule.

- > *Industry Guides, which provide comprehensive information on issues specific to a particular industry.*
- > *Summary of Legislative Changes that is published after each legislative session.*

These documents are all available on the Department's Internet web site at <http://dor.wa.gov>.

The Department also makes available various search engines that can be used to find documents addressing a particular issue. In addition to searching laws and rules, taxpayers can use the Department's Taxpedia search engine to find pertinent court and Board of Tax Appeals decisions. Taxpayers, tax practitioners, and Department employees can also request an explanation of how laws and rules apply to specific scenarios.

Tax Law Interpretation

In addition to tax rules, the Department publishes a number of documents that provide taxpayers, tax practitioners, and Department employees with information about tax-reporting responsibilities, available tax incentives, and changes in tax law that may affect them. These documents include interpretive statements, like Excise Tax Advisories and Washington Tax Decisions. Other examples include:

- > *Special Notices, which provide general information about important changes or issues.*

Property Tax

The Department oversees the administration of state and local property taxation. Review of county assessments ensures consistent and equitable property taxes for all taxpayers. Oversight activities include the following:

- > *Conducting county assessment ratio studies to set the state school levy.*
- > *Equalizing the value of utilities to local taxing districts.*
- > *Oversight of county boards of equalization and the administration of levies.*
- > *Approving county revaluation programs.*
- > *Oversight of personal property assessments.*
- > *The annual setting of personal property valuation guidelines.*

Taxpayer Appeals

To make the appeals process more efficient and effective, the division regularly conducts internal and external surveys. These surveys are used to assess how recent process improvements affected customers' experience. While the majority of those surveyed were satisfied with the fairness, knowledge, and professionalism of Department personnel, some were looking for quicker decision-making and needed more information on how the Department conducted business. As a result, various statistics and other information are posted on the Department web site. The Department is actively seeking to develop technical resources for customers to access more information about appeals directly, while reducing the duplication of record keeping, and analyzing trend information. Department personnel are also reviewing procedural rules and processes to make case processing simpler and more transparent, along with reviewing the settlement process to resolve appropriate appeals earlier in the process.

Taxpayer Advocate and Issue Resolution

The Department's Taxpayer Advocate helps taxpayers resolve issues they feel have not been resolved through routine channels. This position, created by statute in 1991, assists taxpayers in understanding their rights and responsibilities, as well as the options and procedures available to help them resolve their issues. The Taxpayer Advocate may serve as a mediator between the taxpayer and Department. Another avenue for taxpayers to provide feedback is the Department's feedback tracking system. Using this online system, customers can submit compliments and complaints to the Department, or Department staff can submit comments on the customer's behalf. If a response is requested, the Department responds within five business days.

Tax Policy

The Department supports a stable, sound, and productive tax structure that both state and local governments can depend on in order to fund vital government services. The Department works on issues of national interest, including Internet taxation, business activity tax simplification, and taxation of telecommunications with other state and national organizations. These include the Multi-state Tax Commission, Western States Association of Tax Administrators, the Federation of Tax Administrators, Unclaimed Property Tax Administrators, and the International Association of Assessing Officers.

Tax Law Development

On average, the Department analyzes more than 600 legislative bills annually. The Department works with the Governor's Office, the Legislature, the business community, other state agencies and local governments, as well as other stakeholders to develop and improve tax-related legislation.

Tax Analysis and Information

The Department conducts various studies which consider economic trends or impacts of legislation. Many of these are mandated by the legislature and may involve partnering with other state agencies, governments, or stakeholders. Studies are used to analyze or measure the impacts of legislation, to consider changes to tax law, or propose new tax laws. Recently, the Department has assisted other agencies to develop funding options for various programs, such as reclaimed water, derelict vessel removal, and reducing global warming.

Strategies for Progress

Objective

Maintain the Department's Ability to Provide Timely, Accurate and Objective Information

Strategies

- > **Conduct Tax Distribution Analysis –**
Determine who bears the burden of Washington taxes and who benefits from Washington's tax preferences. The Department is currently engaged in joint efforts to build capacity for incidence modeling such as the Household Incidence Model (constructed with House Finance Committee staff) and the Business Tax Model (constructed with Office of Financial Management, Educational Service Districts and Labor and Industries).
- > **Develop Agency Communications Plan –**
An agency-level communications plan would identify objectives, strategies and tactics for communicating externally with taxpayers and the general public and internally with employees. A key goal is to increase taxpayer understanding of tax laws to improve compliance. Other goals include effectively marketing the Department's tools and services, educating the public about our tax system, and improving the public's perception of the Department.
- > **Coordinate Tax Application Training –**
Identify the tax application training each employee job classification needs and at what stage. Broadly publicize and coordinate training opportunities currently being provided only within divisions, create new training programs as identified by the job classification training matrix and emerging needs of staff, and oversee curricula. Provide training for trainers. Advertise, monitor and control these activities through the training system.

Objective

Build Capacity to Implement and Administer Legislation Designed to Promote Tax Fairness

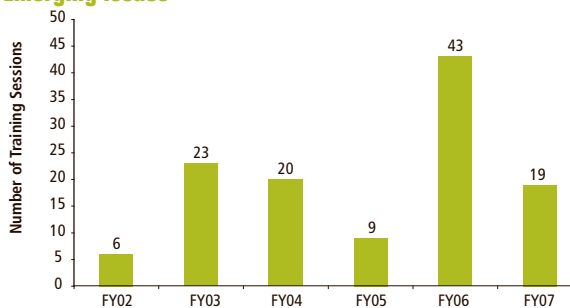
Strategies

- > **Provide Infrastructure For Earned Income Tax Credit Program –** Develop the electronic systems and work processes necessary to implement the tax exemption for working families (ESSB 6809). The project includes development of computer systems using federal earned income tax credit tax data to determine and confirm qualifying individuals and families. The project also includes development of the tax exemption's application and payment processes as well as taxpayer education and exemption notification programs.
- > **Implement Streamlined Sales Tax (SST) –**
Complete implementation of SST by getting all voluntary registrants filing and paying after July 1, 2008. Continue efforts to educate Washington taxpayers on destination based sourcing. Improve or add new tools to assist taxpayers making the change to destination based sourcing. Work through the mitigation process with the local governments. Continue to work at the national level to make SST a success.

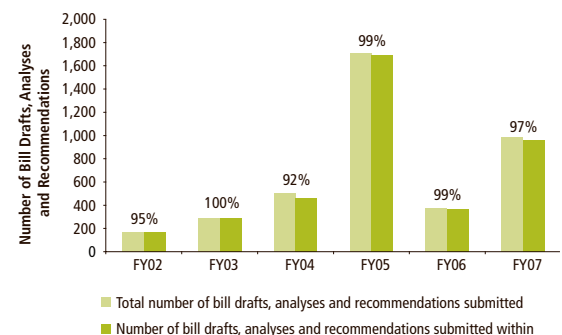
Measures of Performance

- > *Percentage of taxpayers satisfied with the Department*
- > *Mainstream original appeals that have been cleared within 1 year of receipt (see page 60)*
- > *Respond to technical assistance requests within timeline established*
- > *Maintain the number of bill drafts, analyses and tax law recommendations submitted within the time period requested*
- > *Number of training sessions on rules, interpretive statements, policies, and/or emerging issues made available*
- > *Percent of audits issued within 50 calendar days of last contact with taxpayer*
- > *Enforcement collections (see page 57)*

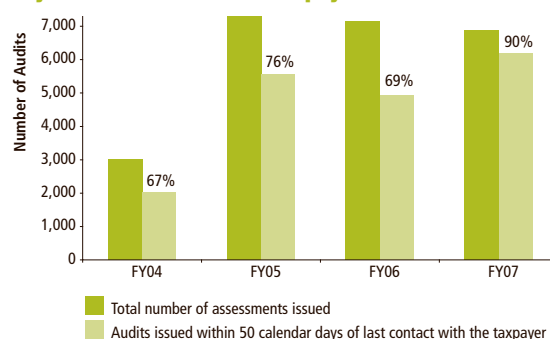
Provide (or Make Available) Training Sessions on Rules, Interpretive Statements, Policies, and/or Emerging Issues



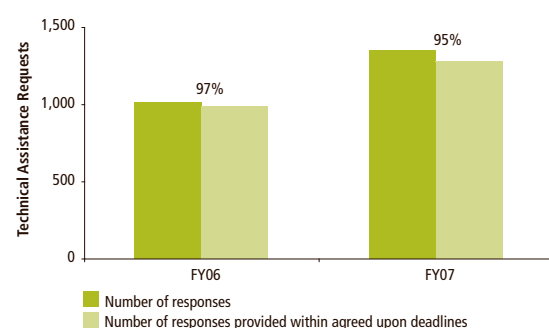
Percentage of Bill Drafts, Analyses and Tax Law Recommendations Submitted within the Time Period Requested



Percentage of Audits Issued within 50 Calendar Days of Last Contact with Taxpayer



Timely Respond to Technical Assistance Requests Within the Timeline Established



Promote Correct and Timely Reporting and Payment of Taxes

Current and Ongoing Activities

Education and Outreach

Education is the most efficient and cost-effective way to reach high levels of voluntary compliance. The Department has a solid education and outreach program committed to providing taxpayers with the information they need to understand and meet their tax reporting responsibilities. This is done through numerous channels, including the Department's web site, the toll-free Telephone Information Center, written letter rulings, publications, and workshops. The Department also makes an effort to provide taxpayer assistance during one-on-one encounters such as audits, reconciliation of account balances, and consultation visits by audit or unclaimed property staff.

Targeted Education

The Department's targeted education efforts are a cost-effective way to promote voluntary compliance that helps taxpayers understand their tax obligations. These efforts are designed to alleviate areas of confusion or clarify new or recent tax law changes. Targeted education is conducted through personalized letters, special notices, and workshops for specific industries.

Voluntary Disclosure Program

The Department encourages businesses to comply with Washington State tax laws through the Voluntary Disclosure Program, which allows companies to come forward to voluntarily register and resolve unreported tax liabilities. When taxpayers are accepted into the program, penalties will either be partially or fully waived, and interest will be imposed at the statutory rate. Companies that have been contacted by the Department are not eligible to participate in the program.

Audit Activities

Audits are conducted to promote voluntary compliance with state excise tax laws and to educate and inform taxpayers of their tax obligations. Several methods are used to select audits, including:

- > **Random Sample** *These audits are selected by the Research division. The data from these audits is used as the basis for the agency's Voluntary Compliance Study.*
- > **New Business** *Primarily targeted-education audits performed on businesses that have been open less than 24 months. Educating these taxpayers early on helps the business to ensure that they are reporting correctly early, rather than after many years of being in business.*
- > **Data Warehouse Analysis** *Data is used to develop two different types of audit selections: accounts where the risk of error(s) have a potential material effect on the budget, and accounts where reporting is inconsistent with other businesses in the same industry.*

The Audit division also verifies refund requests, performs corporate dissolutions and public works contract clearances, and educates taxpayers through various speaking engagements, like Business Outreach workshops.

Tax Consultation Service Program

To increase outreach efforts to small businesses, the Audit division developed the Tax Consultation Visit Program. At the taxpayer's request, a Department auditor will visit the business, review their business activities and financial records, and explain how the state tax laws apply to their specific activities. If reporting errors are found, the taxpayer has the opportunity to correct past period tax returns on their own rather than through an audit. After the Consultation Visit, the taxpayer receives a written summary which will assist in filling out future excise tax returns. This service allows taxpayers to obtain one-on-one education about their reporting obligations and to avoid potentially costly mistakes. It can be beneficial to any business, including those just starting, or ones that do not have an internal tax department.

Limited Scope Audit Program

In a limited scope audit, only certain taxes are examined rather than a comprehensive review of all taxes. Focus areas may be limited to gross income or income for a specific tax classification, deductions, exemptions or credits, a business activity; a single tax reporting account, or use tax for consumables and/or capital assets.

A taxpayer's business must be evaluated, along with a risk assessment, to determine the appropriate scope of an audit. Results show that limited scope audits are the best use of audit resources as it takes less time for auditors to complete this type of audit and results in more recovery per hour. Limiting the scope of an audit also reduces the time an auditor spends at a taxpayer's place of business and minimizes the impact on the business.

Computer Assisted Audit Program

With the goals of becoming more efficient and accurate, the Audit division developed the Computer Assisted Audit Program (CAAP). CAAP staff provides support to auditors by efficiently managing large volumes of electronic records, and provides services such as summarizing and evaluating electronic data, statistical sampling, and data conversions, minimizing the review of support documentation while maintaining sound auditing procedures. The time-saving results benefit both the taxpayer and audit staff, while maximizing consistency and fairness for taxpayers.

Managed Audit Program

The Managed Audit Program was created to allow taxpayers to play an active role in the audit, helping them gain a better understanding of how state tax laws apply to their business activities. A managed audit is formalized with a written agreement between the Department and the taxpayer. The agreement states that the audit will be performed primarily by the taxpayer with guidance provided by the auditor and the results are then verified by the auditor. Not all businesses can participate in this program. The auditor must first assess a businesses' resources and ability to perform some or all of the audit functions, taking into consideration the complexity of the business' operations and applicable tax laws. In exchange for the taxpayer's time, if the audit findings disclose that additional tax is due, the Department will waive up to \$5,000 in interest, and assessment penalties will not be added to the tax amount due.

Collection Efforts

The Compliance division collects delinquent taxes from unpaid, late tax returns, and past due receivables, such as tax assessments, billings, and tax warrants. The collection activities on registered business accounts are achieved through education, investigation, and enforcement activities, including; phone calls, letters, personal contact, and legal action. These collection efforts help ensure all taxpayers pay on time and pay their full tax liability. The more complex collection cases may involve working with the Office of the Attorney General and their Bankruptcy or Criminal Litigation Units to collect amounts owed.

Tax Discovery

Washington State excise taxes are self-assessing in nature. Correctly reporting and paying taxes is the taxpayer's obligation. The Tax Discovery program has three main functions:

- > *Discovering sources of previously unreported tax*
- > *Collecting tax dollars*
- > *Educating the public about Washington State tax laws*

Unreported sources of tax might involve persons who are unaware that a business activity, or the purchase of an item, may be a taxable transaction. Tax liability may also arise when there is an active intention to avoid or evade payment of taxes.

Tax Discovery agents identify, assess, and collect taxes from Washington residents who own and operate unregistered vehicles, vessels and aircraft, or who purchase tangible personal property without paying sales tax. The agents use tools such as the data warehouse, cross-agency referrals, and the Unregistered Business Study to identify unregistered businesses that should be registered and paying taxes. The agents inform taxpayers of their tax obligations and assist them in complying with Washington State tax laws.

Strategies for Progress

Objective

Increase Service Delivery and Improve Organizational Effectiveness

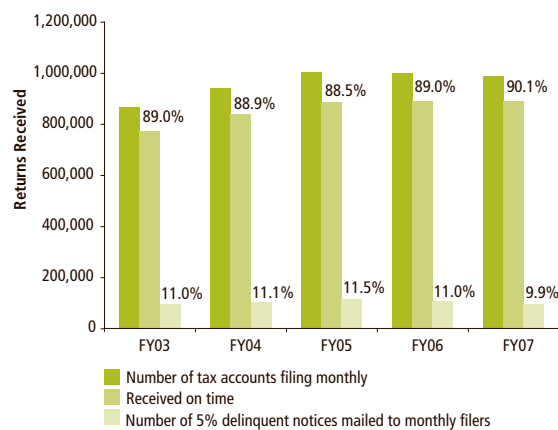
Strategies

- > **Integrating Data to Close the Tax Gap** – Add internal and external data and expand the development of the data warehouse to aid the Department in managing, integrating and analyzing data to include: identification of workload/process efficiencies; development of research tools; identification of non compliant taxpayers; ad hoc reporting; and predictive modeling.
- > **Increase Taxpayer Access to Information** – Guidance on new, evolving, and emerging tax issues. A quality team composed of representatives from the operating divisions, policy divisions, and taxpayers, will identify some simple ways to make more information available easier and faster so that taxpayers and Department staff have the information they need to determine tax obligations.
- > **Develop a Business Continuity Plan** – Begin implementation of strategies and tactics and the provisions for alternative facilities, staff, and resources to ensure continued, performance of minimum essential functions during an emergency.
- > **Implement Initiatives to Address the Underground Economy** – Help level the playing field for those businesses that are registered and paying their taxes. Use the Unregistered Business Study as a guide for compliance efforts to reduce the underground economy. Work proactively and cooperatively with Labor and Industries and Employment Security Department to facilitate cross-agency data sharing and referrals.
- > **Implement Delinquent Account Management Efficiencies** – Begin implementation of recommendations made in the Collection System Modernization Study to include a feasibility study on business process improvements based on best practices.

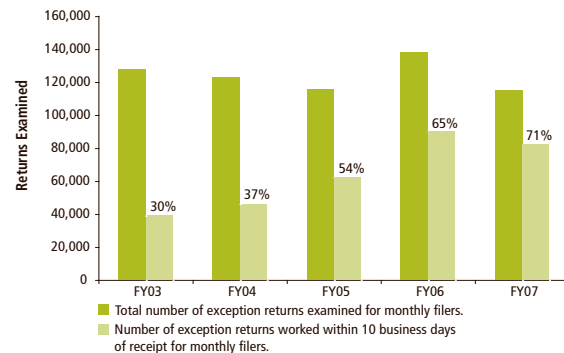
Measures of Performance

- > Maintain the voluntary compliance rate (see page 56)
- > Maintain the percentage of monthly returns filed accurately (see page 57)
- > Maintain the percentage of monthly returns filed timely
- > Correct tax return errors within 10 days

Maintain The Percentage of Monthly Returns Filed Timely



Correct Errors Within 10 Business Days



Other Key Focus Areas

Enterprise Solutions

Designed to help reduce costs and increase productivity, enterprise solutions are being explored throughout state government. The Department examines its collective processes, information systems, personnel systems, and organizational structure, and aligns these with its mission, goals, and strategic direction.

Current activities tracked for audit-related information in Audit Standards & Procedures (AS&P) include refund requests, waivers, dedicated funds, and appeals; all of these involve numerous databases that are manually updated and subject to data-entry errors.

Using this as a guide, the Department can ensure its return on investment, risk assessment, service delivery, and data integrity components are met.

Internal enterprise solutions currently underway include telephones, H/P Tandem migration, and debt collections. On a statewide level, the Department is actively involved in a variety of Information Services (IT) enterprise efforts that include e-portfolio management, IT strategic planning, and the Roadmap program. Department personnel are members of the Roadmap Governance Committee and Advisory Group led by OFM. Roadmap objectives include improvements to the enterprise-wide financial systems and improved business practices intended to streamline operations, save costs, and better meet demands for state government information.

TATS Phase 2 will provide one system with data validation checks and real-time data, allowing users to monitor and track audits submitted to AS&P for processing. Also tracked under this system will be the audit review and issuance process, refund requests, waivers, information on audits under appeal, and compliance actions. When this system is completed, employees will have the ability to locate an assignment at any step in the process. The system will also provide management reports. Ultimately the Department will be better able to respond to status requests from taxpayers, legislators, practitioners, and other employees.

Tax Assessment Tracking

The Tax Assessment Tracking System (TATS) allows divisions that issue tax assessments to access and review documents. Details are categorized by data entry operator, region, and division for tax assessments issued since July 1, 1999. Specific details include taxpayer and auditor identifying information, type of audit, tax adjustment, interest adjustment, penalty adjustment, and hours charged to the audit. TATS also allows the user to view Tandem audit history.

Replacement of Interactive Voice Response Servers

Providing effective and efficient customer service is an agency priority. One way the Department has accomplished this is by using an Interactive Voice Response (IVR) system. The existing IVR system is nearly seven years old, and has nearly exceeded the industry telephony life expectancy standard of five to seven years. To ensure reliable telephone services continue, the Department needs to replace the existing IVR servers. The new servers are more reliable and more technologically advanced, and will ensure the agency meets customer expectations.

Appeals Case Management

The Department is reviewing options for replacing the Appeals case tracking system. The current system is ill-equipped to provide the data management capabilities needed to manage a rolling inventory of 900 annual appeals. The current system provides rudimentary reports, has no ability to communicate with other data systems and requires manual inputs and data extractions to provide basic information for performance measures, trend analysis, and record keeping. A new case management system with increased efficiencies for staff and improved access to information is critical for ongoing appeals case management and information sharing.

Tribal Interactions

The Department continues to develop and expand its efforts to work cooperatively with tribal governments to address and resolve taxation issues. The Department has formed a Tribal Relations Team to create an ongoing and coordinated effort to work with Tribes on various areas of taxation. Recently, the Department worked collaboratively with certain Tribes and the Governor's Office of Indian Affairs to develop and present education on Tribal sovereignty and taxation to local communities and governments. Work continues on the development of rules, forms, and publications that pertain to the application of taxes on transactions within the boundaries of tribal reservations.

Forest Tax Modernization

The Forest Tax Modernization Project began in September 2007 and will move the program's current tax return computer system from a mainframe environment to a web-based platform. Scheduled for completion in 2009, the project will provide an integrated and cohesive Forest Tax system that combines the Forest Tax Permit system with the Log Export and Valuation systems. This updated system will allow Forest Tax staff to efficiently develop reports and locate taxpayer's harvest and transaction data. It will provide staff with the ability to use a single web-based system to locate and update data, and avoid the current duplication of work resulting from multiple platforms. The uniform tax system will also create efficiencies in support provided by the I.S. division.

Tax Deferral Processing and Tracking

Recent Legislation has increased the number of tax deferral programs and taxpayers participating in deferrals. However, the Department's staff and other stakeholders have limited access to tax deferral information because the data resides on multiple Access databases within the Special Programs division. The Information Services division no longer supports the version of Access software that serves as the platform for these databases. Developing the Tax Deferral Management System will improve accessibility and management of deferral data and the necessary program reports. The system will allow for additional new deferral programs and enhance program features like tracking accounts, and employment data, or monitor audit referrals.

Multiple Protocol Label Switching (State Government Network)

As part of the overall state government infrastructure strategy, the Department plans to join the DIS-managed State Government Network (SGN) utilizing Multi-Protocol-Label-Switching (MPLS). Currently, the Department obtains data connectivity directly from a private vendor to provide single circuit communication links between its headquarters and 17 field offices statewide. The Department recognizes the risk associated with single circuit connectivity.

The DIS MPLS solution provides redundancy via multiple connection pathways decreasing the risk of communication failure. It also provides the benefit of higher overall “up time” for the circuits, decreasing the impact that data connection issues will have on the Department’s ability to conduct business.

Interagency Communications

The Department understands the value and importance of working with other state agencies. For example, the Departments of Community, Trade, and Economic Development and Revenue mutually benefit through continued sharing of information related to significant stakeholder concerns, legislative proposals, and the advantages and problems associated with them. The Department also shares information regularly with OFM, and will continue to explore information-sharing opportunities with other state agencies.

The Department administers a variety of taxes earmarked to dedicated accounts that fund specific state-wide programs administered by other agencies. It is important to maintain communication protocols in order to timely inform the appropriate parties, the legislature, OFM, and agencies directly impacted. In addition, establishing and maintaining regular legislative awareness meetings among and between agencies is an important Department focus.

Expanding Electronic Service Delivery to Taxpayers

The Strategic Business Plan includes several strategies that help make it easier and more efficient for taxpayers to do business with the Department. The Department’s commitment to using technology makes it more efficient and user-friendly. It also promotes voluntary compliance through increased access to information and online services.

The Department already takes advantage of the Internet, providing education and assistance through up-to-date information, online videos, and a tax rate look-up tool. The Department was one of the first state revenue agencies to enable businesses to compute, file, and pay taxes over the Internet. Recently, the Federation of Tax Administrators (FTA) announced that the Department was the recipient of its 2008 Award for Outstanding Technology Applications in State Tax Administration. FTA judges were impressed by the Department’s extensive customer involvement in web development and design process, saying the program was innovative and an excellent demonstration of how effective usability studies are in software development.

Unclaimed Property Holder Account Management System

The Unclaimed Property (UCP) section is developing the Holder Account Management System (HAMS) that provides a modern and thorough system for the reporting and payment of unclaimed property. The initial HAMS phase will integrate and streamline UCP reporting, payment, audit, and billing processes into a single computer system, similar to the Department’s excise tax system. Currently, staff members update several unconnected databases to perform these functions and revise data. HAMS will provide for the expansion of compliance efforts, improve audit selection, as well as improve customer service by giving users a single resource for information.

Digital Goods

Consumption of digital goods (as compared to traditional tangible goods) is increasingly common, but raises difficulties for Washington's tax system. Examples of digital goods are digitized music, books, movies, games, standard architectural drawings and data of all kinds.

Disputes center on whether digital goods are tangible personal property. In 2007, the Legislature created a Digital Goods Study Committee with a charter to examine the taxation of digital goods. The committee is composed of legislators, taxpayers, business associations, and government representatives. So far, the Department has provided the committee with an explanation of the Department's current treatment of digital goods, a 50-state survey of how digital goods are treated elsewhere, and an analysis of how the European Union and Canada treat digital goods for tax purposes. The Department also has provided estimates of digital goods revenues showing the amount of sales tax derived from sales and purchases of various digital goods.

The legislature received an interim report at the end of 2007. The final report is due Sept. 1, 2008. The committee hopes to reach consensus on principles to guide the legislature on how to tax digital goods, as well as some alternatives that conform to those principles.

Telecommunications

Telecommunications taxes are among the most confusing, with different state and local taxes, fees, rates and exemptions. Technological changes and changes in business practices have outstripped the current tax code, leaving real questions around fairness and consistency. Local governments rely heavily on telecommunications revenues. The industry feels overtaxed and seeks simplification at the state level. Solutions in other states have included centralized collection and distribution of local taxes and uniform sourcing rules.

In 2007 the Department hosted a day long conference on telecommunications and technological change with presentations and participation by a wide range of industry and local government representatives. Technological convergence, bundling of services, changes in delivery methods, and potential tax implications of all these changes were explored. The agency is currently surveying all interested stakeholders about the potential value of a study on telecommunications taxation in Washington, and what the scope and form of such a study could be.

Performance Assessment

The Department of Revenue fosters an environment of innovation and continuous improvement. Embracing and practicing quality principles demonstrates the Department's commitment to effective and efficient service delivery. Work methods become more transparent, cost effective, and seamless while the focus on customers and stakeholders steadily increases.

Baldrige

The Department has a solid foundation using the Malcolm Baldrige Criteria for Performance Excellence, a nationally acclaimed framework of strategic and execution excellence. These principles have driven internal improvement efforts for nearly a decade. The six interlocking Baldrige categories are leadership, strategic planning, customer and market focus, measurement analysis and knowledge management, human resource focus, and performance results. The disciplined analysis of processes and results lend a critical eye to the Department's organizational processes compared to industry best practices.

Self Assessments

Formal assessments exemplify the Department's dedication to seek continuous business advancement. In 2000, 2002, and 2004, the Department conducted self assessments using the Baldrige Criteria to identify strengths as well as opportunities for improvement. In 2006, the Department began an annual assessment based upon the Governor's Management Framework.

Government Management, Accountability, and Performance (GMAP)

Government Management, Accountability, and Performance (GMAP) forums provide a constructive environment to frankly discuss and solve issues surrounding the Department's performance measures and results. An accountability tool that is used internally and in reporting to the Governor, GMAP sessions provide thoughtful analysis of data and straightforward accounts of current progress and challenges. All presentations are available on the Intranet, along with summary articles about the content of each forum. GMAP is further cascaded to managers and supervisors at annual Operations Team Meetings and many divisions use GMAP in their divisional management process.

2007 Washington State Quality Award Application

In October 2007, the Department became the first Washington State Executive Cabinet agency to apply for a full examination by the Washington State Quality Award (WSQA). The Department has a 10-year history of using the Baldrige Criteria to foster a culture of continuous improvement and this application exemplifies the Department's commitment. The Malcolm Baldrige Criteria for Performance Excellence and RCW 43.17.390 provide a solid foundation for external and internal evaluations that lend a critical eye to our organizational processes. This examination is an opportunity to describe the Department's mature management processes and share its impressive results. In return, all WSQA award applicants receive a comprehensive feedback report providing objective, professional evaluation of the Department's strengths and recommended strategies for improvement.

The Department was pleased to learn that it won an award at the Achievement level from its application.

Every year, many talented individuals and agency programs garner recognition, including statewide and national attention. Examples of recent prestigious awards include the following:

Awards and Recognition

2006

National Federation of Tax Administrators (FTA)

Training in Best Use of Technology Award for Washington's Web-Based Tutorials

2007

National Federation of Tax Administrators

Management & Organization Initiative Award for Washington's Unclaimed Property Electronic Claim Process

State Auditor's Office

Honorable Mention for Fifteenth Consecutive Clean Audit

South Sound Reading Foundation for the Well Read, Well Fed philanthropy

Extra Effort Award

2008

National Federation of Tax Administrators

User-Centered Web Site

South Sound Reading Foundation for the Well Read, Well Fed philanthropy

Promoting Literacy Award

Washington State Quality Award

Achievement level Award

Taxpayer Surveys

Every three years the Department conducts a taxpayer survey to help assess the varying needs of customers and to help determine how efficiently and effectively work is done. The survey contains questions regarding all areas of the Department's operations and keeps some key questions the same to compare responses over time.

The Department also conducts other surveys such as the Audit Process Survey that requests information from the taxpayer once an audit has been completed. Field office and Telephone Information Center surveys gain insight into why a taxpayer uses a particular service and whether or not they were satisfied. Online usability surveys are available on the Internet web site for testing of new web services before deploying them.

Other means of soliciting input have included:

- > *Business and local government stakeholder roundtable events that were held throughout the state to obtain input for the Department's Strategic Business Plan.*
- > *Asking taxpayers to participate in committees, focus groups, and panel discussions to resolve specific issues or discuss policy matters.*
- > *Conducting "new business workshops" to provide new companies the opportunity to gather information on tax policy and requirements.*
- > *Meeting with industries to discuss tax issues of specific importance to them and gather ideas for improvements and possible legislative proposals.*

Employee Satisfaction Survey

The Department has conducted a biennial Employee Satisfaction Survey (ESS) since 1989 to assess the needs and expectations of its employees. This is independently administered by a third party. Employees rate their satisfaction in nine categories including career development, morale, service quality, and supervision.

The survey is the first step in this quality improvement program. Every division hosts Employee Feedback Sessions to discuss the meaning behind the data and directly contribute to strategic planning efforts. Action plans are charted at the Department and divisional levels, while accountability mechanisms like the formal ESS Progress Tracking Matrix monitor implementation progress throughout the Department.

In 2007, the ESS was updated through an intensive improvement process involving approximately 100 employees. Changes include incorporating the Department of Personnel's Statewide Climate Survey, significantly reducing the number of questions while maintaining trend data, and adding a revolving "Hot Topics" category to keep the survey fresh with emerging issues.

Performance Measures

The Department has compiled and tracked performance measures for many years. Performance measures are reviewed, evaluated, and updated annually through the budget process. Divisions report actual versus estimated performance every month and use these measures to monitor workloads, activities and trends. Performance results are reported to the Office of Financial Management and presented during Department and Governor GMAP sessions. Selected measures are slated for executive review on a monthly, quarterly, and annual basis.

Revenue at a Glance

Fiscal Year 2007

The Washington Department of Revenue collects more than 90 percent of state General Fund tax revenues (96.1 percent in FY07). The table below reflects its role as the state's primary tax collector.

Employees (FTEs)	1,037.4
Percent Change in FTEs Since 1994	0.4%
Percent Increase in Registered Businesses Since 1994	101%
Percent Increase in Taxes Collected Since 1994	108%
2005-2007 Budget	
FY 06	\$97.1 million
FY 07	\$99.1 million
Total Biennium	\$196.2 million
Total State and Local Revenue Collected - \$18.1 billion in FY07	
State Revenues:	
Retail Sales and Use Tax	\$7.9 billion
Business and Occupation (B&O tax)	\$2.8 billion
State Property Tax levy	\$1.8 billion
Other State Taxes	\$2.9 billion
Total State Collections	\$15.4 billion
Local Revenues:*	
Retail Sales and Use Tax	\$2.6 billion
Other local revenues	\$0.1 billion
Total Local Collections	\$2.7 billion
Cost per \$100 collected FY07 (lowest figure since 1983)	63.1 cents
Electronic Funds Transfer (EFT):	
Number of All EFT Accounts (as of 7/1/07)	30,288
Percentage of Total Revenue Collected	73.6%
Number of Registered Electronic Filing (E-file) Filers (as of 7/1/07)	157,194
Number of Active "Reporting" Taxpayers (as of 6/30/07)	
Monthly	84,949
Quarterly	162,789
Annual and others	221,782
Total	469,520
Total Active "Non-reporting" Taxpayers (as of 6/30/07)	304,775
Total Registered Businesses (as of 6/30/07)	774,295
Net Gain in Registered Businesses (from 7/1/06 to 6/30/07)	15,060
Total Number of Tax Returns Filed	1,905,325
Average tax return error rate:	
Monthly	10.1%
Quarterly	9.4%
Annually	9.6%
Number of Audits Conducted	6,750
Number of Calls Received by the Telephone Information Center in FY07	307,789
Average Number of Visits to the Internet Web Site Per Month	343,926

* The Department collects and distributes a variety of local taxes for about 350 local jurisdictions.

Support of Statewide Results

Improve the Ability of State Government to Achieve Results Efficiently and Effectively

All seven of the Department's activities have been designated as supporting the Statewide Results Category of "Improve the ability of state government to achieve results efficiently and effectively". Because the Department administers tax and other programs that result in revenue collection, it supports every Statewide Result category as well as programs at the local government level.

General fund money collected by the Department in Fiscal Year 2007 totaled \$15.4 billion. These collections support various state services including all levels of education, correctional facilities, social services, general government activities, and other programs (activities) that rely on general fund dollars. In addition, the Department also collects a variety of dedicated taxes and fees to fund efforts conducted by the Department of Ecology, Department of Community Trade and Economic Development, the Pollution Liability Reinsurance Trust program, the State Convention and Trade Center, Military Department, and others. Among others, these taxes include oil spill, E-911, tobacco and cigarette taxes, litter tax, refuse collection, hazardous substance, and petroleum products tax.

These collections support all other statewide results categories, which are:

- > *Improve student achievement in elementary, middle, and high schools*
- > *Improve the value of postsecondary learning*
- > *Improve the health of Washington citizens*
- > *Improve the security of Washington's vulnerable children and adults*
- > *Improve the economic vitality of businesses and individuals*
- > *Improve statewide mobility of people, goods, information and energy*
- > *Improve the safety of people and property*
- > *Improve the quality of Washington's natural resources*
- > *Improve cultural and recreational opportunities throughout the state*
- > *Improve the ability of state government to achieve results efficiently and effectively*

In Fiscal Year 2007, the Department also collected and distributed \$2.7 billion in local government sales tax revenues to fund local programs.

Agency Activity Inventory

Activity A001

Administration

Internal administrative services support activities to effectively carry out Department operations and the strategic business plan. These services include: the overall management of the agency through executive oversight, internal auditing, accounting and budgeting, payroll administration, facilities management, purchasing, human resources, organizational development, and legal services provided by the Attorney General's Office.

Statewide Results Area Strengthen government's ability to achieve results efficiently and effectively.

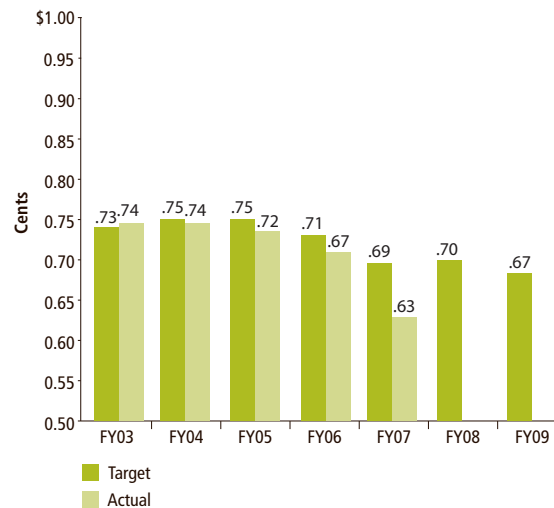
Expected Results Administrative services provide essential support to all activities within the agency. In addition, legal services, included in this activity, defend the state's interests through successful litigation of tax issues.

Fiscal Year 2007

Total State and Local Revenue Collections (In Millions)



The Department's Cost of Collecting Revenue (Cents per \$100 of Revenue Collected)



Activity A002

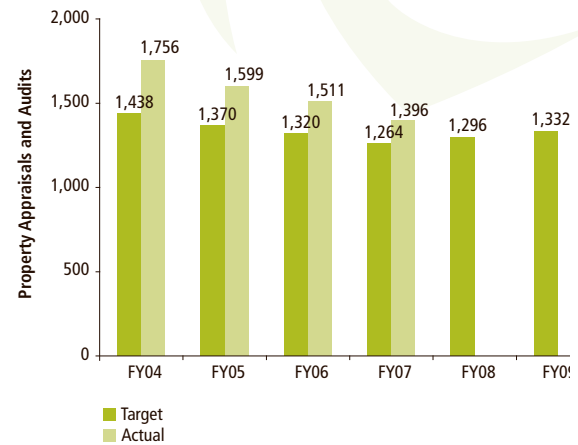
Property Tax Administration

The Department of Revenue has a statutory obligation to ensure uniformity within the state's property tax system and oversee the administration of property taxes at both the state and local levels. The Department also determines the state school levy; conducts complex appraisals on commercial, industrial and special use properties; administers property tax exemptions and deferral programs; and provides guidance, training, and assistance on property tax issues to county officials. The Department also performs appraisals throughout the state on inter-county and inter-state utility companies. These utilities have a combined assessed value in excess of \$15 billion and provide over \$179 million dollars in property tax each year for local government and state schools.

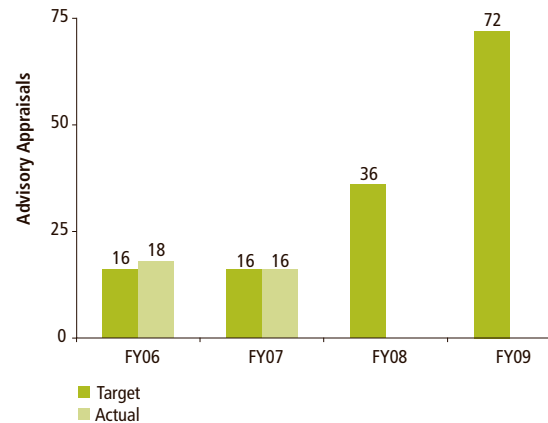
Statewide Results Area Strengthen government's ability to achieve results efficiently and effectively.

Expected Results To meet the statutory obligations of RCW 84.48.080, the Department performs appraisals of real and personal property to develop ratios of assessed value to fair market value. The Department then applies these ratios to equalize utility property assessments and to equalize the state school levy that counties pay to the general fund. As a result, each county pays its fair proportion of the taxes for the state school levy. Property tax levy collections for the state school levy in calendar year 2008 are estimated to be \$1.763 billion, and in calendar year 2009 \$1.823 billion. The Department seeks to ensure uniformity in assessments by conducting advisory appraisals in counties that request them. It also administers property tax exemptions and deferrals across the state for senior citizens as well as exemptions for over 10,000 nonprofit organizations.

Number of Real Property Appraisals and Personal Property Tax Audits Complete



Increase the Number of Advisory Appraisals



Activity A003

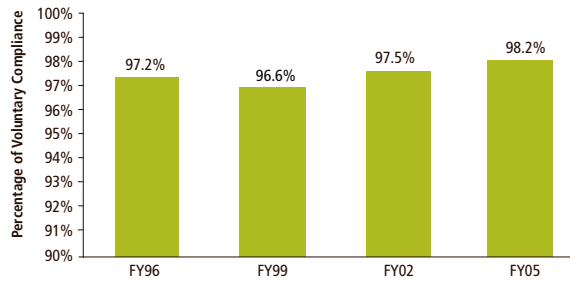
State and Local Revenue Collection and Distribution

The Department of Revenue is responsible for the fair, efficient, and uniform administration of state tax law. Primary activities include taxpayer registration, tax return processing, collection activities, accounting for and distributing state and local tax revenues, promotion of voluntary compliance through taxpayer education, information and assistance, and enforcement. These activities are conducted from offices throughout the state and are supported by a statewide computer network.

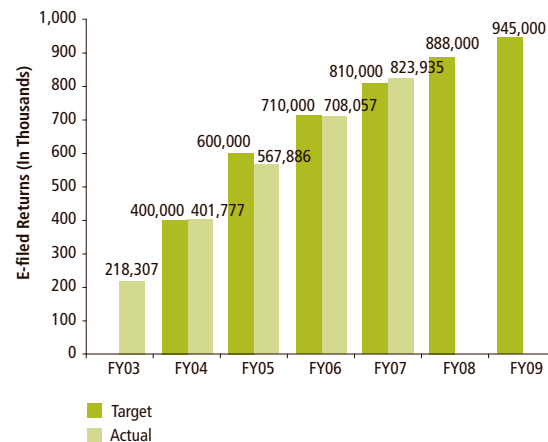
Statewide Results Area Strengthen government's ability to achieve results efficiently and effectively.

Expected Results The Department provides ongoing education and assistance to taxpayers while maximizing the collection of tax dollars owing on delinquent accounts. Total dollars collected from delinquent accounts and through tax discovery efforts exceeded \$599 million in Fiscal Year 2007. Total dollars collected from Real Estate Excise Tax (REET) exceeded \$1.9 million in Fiscal Year 2007, and a modest increase is expected in Fiscal Year 2008. In Fiscal Year 2007, over \$2.7 billion in local tax was collected on behalf of local jurisdictions. At the end of Fiscal Year 2007, there were 774,295 registered accounts on record. By the end of Fiscal Year 2009, the Department estimates registered accounts to reach 854,000. In fiscal year 2007, 96% of the over 2.5 million documents received were processed and corrected within 48 hours. Although the number of documents to process is projected to increase, the Department expects to continue to process and correct at least 90% of these documents with the 48 hour goal through the 07-09 biennium. In Fiscal Year 2007, 232,629 in-coming calls were received by the call center. Of those callers requesting personal assistance, 74% were answered in sixty seconds or less. The estimate for FY08 is 285,500 in-coming calls with 70% answered in sixty seconds or less.

Maintain/Improve the Voluntary Compliance Rate for Tax Reporting

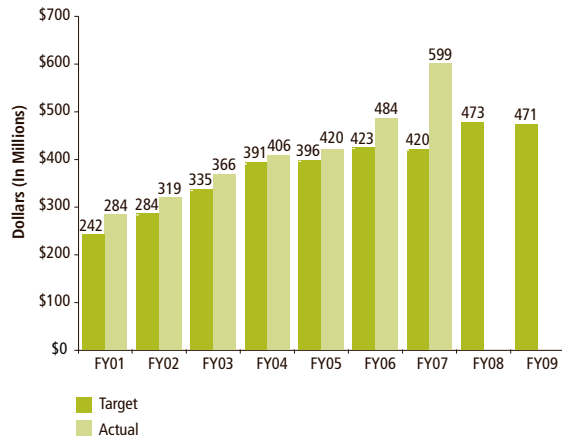


Increase the Number of Returns Filed Electronically

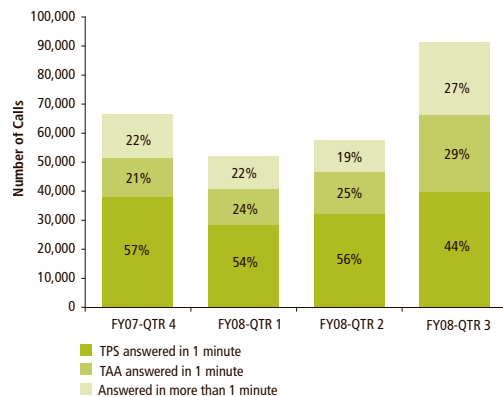




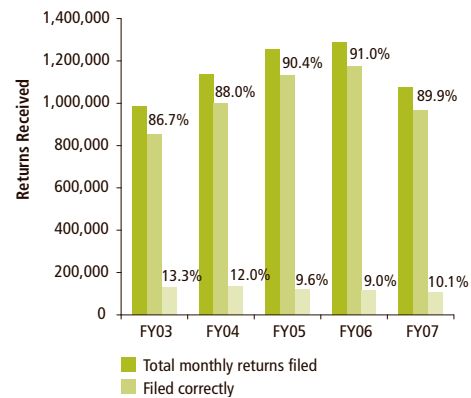
Total Enforcement Collections (Cumulative – in Millions)



Answer 80% of Incoming Calls Requesting Personal Assistance Within One Minute



Maintain the Percentage of Monthly Returns Filed Accurately



Activity A004

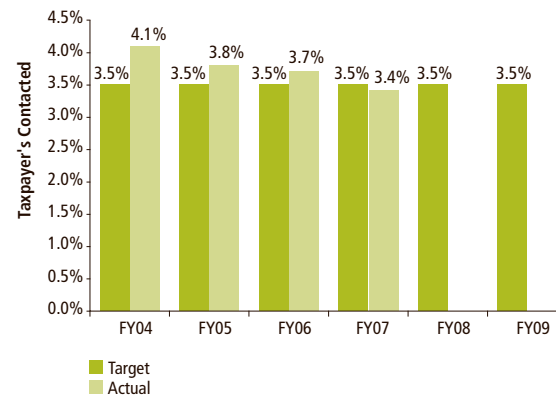
Tax Auditing

Audit division activities support the voluntary reporting and payment of taxes and the administration of the tax system. Audit division staff are assigned to field offices across the state and other locations throughout the United States, or as roving out-of-state auditors based out of Washington. Auditors conduct audits of businesses that have activity in Washington State, working directly with taxpayers to verify the accuracy of taxes reported, and to identify and correct improper reporting, leveling the tax burden on Washington State businesses. Audit division activities also include educating taxpayers about tax reporting through business outreach seminars, consultation visits, and other speaking engagements. Internally, the Audit division assists the Department in understanding the practical application of tax law by identifying changes in technology, business activities and industries. Externally, the Audit division is, in many cases, a “face” for the Department, and often serves as a taxpayer’s first and only personal contact with the Department.

Statewide Results Area Strengthen government’s ability to achieve results efficiently and effectively.

Expected Results The Department’s auditing function is intended to provide fair and uniform application of tax laws, and promote an optimal level of accurate tax reporting and payment through continuing auditing presence and taxpayer education. The gross value of tax assessments in fiscal year 2007 totaled \$363.6 million. The annual gross value of tax assessments in fiscal years 2008 and 2009 are estimated at \$264 million.

Percentage of Active Reporting Taxpayer Accounts Contacted by the Audit Division



Activity A005

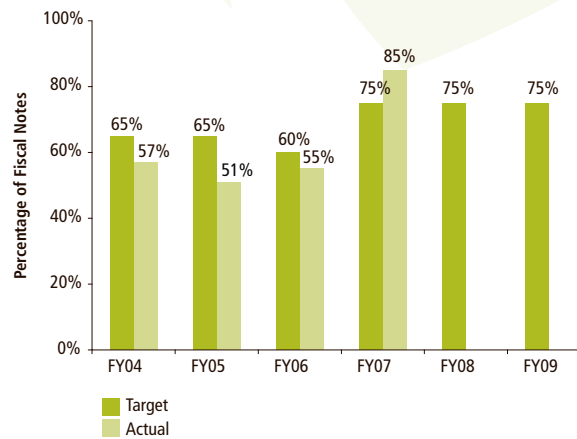
Tax Policy Research, Analysis, and Interpretation

Tax policy activities focus on providing timely and accurate information for policy decision makers, clear guidance to taxpayers, employees, and the public regarding tax law and policy application, and coordinating interdivisional policy analysis and studies. Specific functions include: coordinating interdepartmental policy analysis and studies; preparing fiscal notes; analyzing and drafting legislation; reviewing and drafting rule revisions; providing technical policy advice to operating divisions; forecasting non-general fund revenue; and analyzing proposed changes to tax statutes on small business.

Statewide Results Area Strengthen government's ability to achieve results efficiently and effectively.

Expected Results The Department's objective is to provide accurate, timely, and clear information that encourages informed tax policy decisions.

Draft Fiscal Notes Delivered at Least Four Hours Before The Hearing



Activity A006

Taxpayer Appeals

The Department receives over 900 taxpayer appeals each year. These appeals are comprised of five case types:

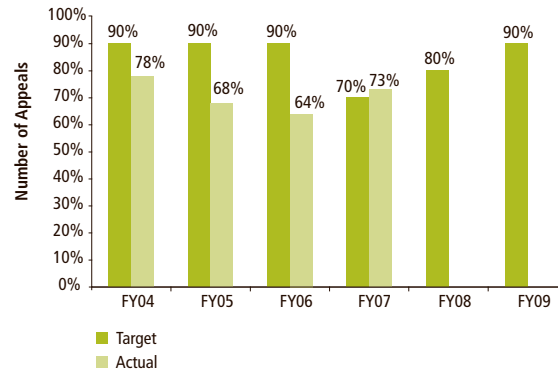
- > **Small claims** *single issue, up to \$50,000 in tax, penalties and interest*
- > **Executive** *first impression, industry wide significance*
- > **Mainstream** *regular appeals*
- > **Revocations** *business registration revocations*
- > **Board of Tax Appeals (BTA)** *informal appeals from agency final decisions*

When an appeal is concluded the Department issues written determinations, renders confidential tax law interpretations of tax disputes, executes settlement closing agreements when appropriate, and publishes select determinations. When cases are appealed to the BTA, the Appeals division presents the Department's case during informal proceedings.

Statewide Results Area Strengthen government's ability to achieve results efficiently and effectively.

Expected Results The Appeals division's goals are to timely resolve tax appeals and provide written guidance on Washington State tax laws. In Fiscal Year 2007, 888 total appeals were received and 974 cleared. During FY07 mainstream cases accounted for 79% of all case types. Small claims were 12%; Revocations 8%; BTA and Executive cases 1% each. Although we expect the percent by type of case to be similar for FY08 and FY09, the total number of appeals is expected to gradually increase. With two additional FTEs in FY08 and FY09 the number of cases cleared will more closely align to filings and potentially reduce the number of cases in backlog (cases not cleared within performance measures).

Mainstream Tax Appeals Cleared within One Year of Receipt



Activity A007

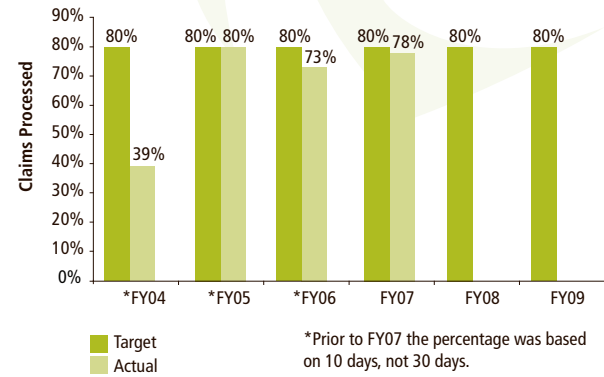
Unclaimed Property Management

The Department administers the provisions of the State Uniform Unclaimed Property Act (RCW 63.29). The unclaimed property program is a consumer protection program charged to return abandoned property to the proper owner. The Department receives the transfer of abandoned property to the state and attempts to locate the owners through advertising and by providing public access to abandoned property owner information. The Department's role is to act in the interest of the property owners and return the abandoned property to the rightful owners whenever possible. Examples of abandoned property include utility deposits, insurance policies, safety deposit box contents, dividends, and savings accounts. Unclaimed property does not include real estate, vehicles, and most other physical property.

Statewide Results Area Strengthen government's ability to achieve results efficiently and effectively.

Expected Results The Department's Unclaimed Property section efficiently administers unclaimed property programs and the return of abandoned property to proper owners. The Department notifies the reported owners of property valued at \$75 or more, and advertises the program through publications. Currently, all owners with property exceeding \$25 in value are posted to the Department's web site. The Department is statutorily required to process all owner claims within 90 days of receipt. In Fiscal Year 2007, over 645,000 owner names, representing \$95 million in unclaimed property, were reported to the state by businesses and other holders from around the nation. At the same time, over \$39 million was returned to 82,025 owners who filed claims. In Fiscal Years 2008 & 2009, the Department expects moderate increases in both dollars returned and owners who file claims.

Monetary Unclaimed Property Claims Processed Within 30 Days of Receipt



Washington's Tax History

An Overview of Major Events Relating to the Development of State and Local Taxes in Washington

Early Tax History

From the establishment of Washington as a territory in 1853 until the Depression years of the 1930s, the property tax was the principal revenue source for both state and local governments. The property tax was considered to be a good measure of ability to pay during the largely agrarian economy, and most governmental programs directly benefited property owners. Upon achieving statehood in 1889, a major provision of the state Constitution required that all taxes on property be applied uniformly. Several other taxes were established during this early period:

- > *Tax of 2% levied on premiums received by insurance companies (1891)*
- > *Inheritance tax with rates ranging from 1% - 12% (1901)*
- > *Tax on motor vehicle fuel at a rate of 1 cent per gallon (1921)*

The Depression Years

As the scope of governmental programs increased during the early part of the 20th Century, greater reliance was made on the property tax. By 1930 the average property tax rate had reached 2.8 percent of market value (by comparison, the current statewide average rate is 0.9 percent). Washington's economy was shifting more toward an industrial basis, and the value of property owned was no longer necessarily a good measure of an individual's wealth. Thus, the property tax increasingly violated the "ability-to-pay" criterion for a good tax. With the advent of the Depression, many workers had lost their jobs and were not able to pay their property taxes. On the one hand, government revenues plummeted as property tax delinquencies grew, while on the other hand there was increased need for expanded governmental services for welfare and relief programs to help unemployed persons.

Two special tax study groups met during the 1920's and recommended that Washington's tax structure be broadened, so that the reliance on property taxes could be reduced. In the first of many subsequent instances of citizens attempting to directly influence the tax system, the voters approved two initiatives in 1932. One imposed a limitation on property tax rates equal to 40 mills (one mill = 0.001). The other established a state personal and corporate income tax. However, in a landmark decision handed down in early 1933 the State Supreme Court overturned the income tax, by interpreting income as constituting property; this implied that a tax on income would be in violation of the constitutional uniformity requirement for taxes on property.

In response to the Court decision, the 1933 Legislature adopted a temporary gross receipts tax on business as a stop-gap measure to balance the state budget. This represented Washington's first excise tax on general business activities.

Revenue Act of 1935

To address the deepening financial crisis, in 1935 the Legislature enacted the most comprehensive tax bill in state history. As a result, the state's principal form of taxation shifted from property taxes to excise taxation (i.e., taxes that are measured by a transaction, e.g., the selling price of an item). This legislation contained many of the tax sources which form the basis of Washington's tax system today. In fiscal year 2006, Revenue Act taxes generated three-quarters of all state tax receipts supporting the state general fund. These sources included:

- > *Retail sales tax*
- > *Compensating (use) tax*
- > *Business and occupation tax*
(replacing the 1933 tax)
- > *Public utility tax*
- > *Liquor sales tax*
- > *Cigarette tax*

The 1935 Revenue Act also included other taxes which were either vetoed by the Governor, ruled unconstitutional or were subsequently repealed, including a corporate net income tax; a tax on fuel oil; taxes on stock transfers and conveyances; specialized taxes on radios, toiletries and medicines; a gift tax to supplement the inheritance tax; and a tax on admissions (now a local govt. revenue source).

Subsequent Tax Changes

Many of the changes in Washington's taxes over the past 75 years have involved either changes in tax rates or tax base revisions - broadening to new areas for existing taxes or tax reductions in the form of new exemptions, deductions, credits, etc. The last page contains a summary of the rate changes for several of the principal state taxes. Adoption of major new taxes and significant tax base changes are noted below:

- 1937 Motor vehicle excise tax adopted (before vehicles were subject to personal property tax).
- 1944 Two constitutional amendments adopted: (1) 40 million property tax limit with assessment at 50% of true & fair value; and (2) motor vehicle fuel tax earmarked for highway use.
- 1951 Sales tax extended to hotel/motel accommodations. Real estate excise tax of 1.0% on property that is sold authorized for counties and earmarked for schools; the tax was shifted to the state level in 1981.
- 1955 Program begun to bring property valuations up to market value.
- 1959 Sales tax extended to rental of personal property & certain other services. B&O tax extended to rental of real estate but was overturned in 1960 by State Supreme Court as constituting double taxation of property.
- 1961 Sales tax extended to certain amusement/recreational services. New tax on liquor measured by volume (originally per ounce, now per liter).
- 1965 Constitutional amendment allowing property tax exemptions for senior citizens; the initial exemption program for seniors and disabled homeowners was adopted in 1967. Manufacturer's tax credit allowed B&O tax credit for sales tax paid on major investments.
- 1967 First "hotel/motel" tax; King County authorized to receive 2.0% of state sales tax on lodging for construction of Kingdome.

- 1968 Constitutional amendment allowing current use assessment of open space, agricultural, and timber lands for property tax purposes. Program was implemented in 1970.
- 1969 Court decision required assessment of property at 50% of true and fair value.
- 1970 B&O tax extended to financial institutions, following a change in federal policy allowing states to tax national banks. Initial local sales tax of 0.5% authorized for cities/counties.
- 1971 Annual increases in local regular property tax levies limited to 6%.
- 1972 Constitutional amendment limiting regular property tax levies to 1%. Timber excise tax imposed on the stumpage value of timber harvested on private lands. Timber tax phased in as property tax on timber was phased out.
- 1974 Phase out of property tax on business inventories over 10 years. An increasing portion of the property tax on inventories was allowed as a credit against B&O tax until 1984 when they were exempted from property tax outright.
- 1975 Property assessments increased to 100% of true and fair value. Levy rates switched from mills to dollars per \$1,000 with reallocation of levies among state and local taxing districts designed to meet constitutional 1% limit.
- 1976 Leasehold excise tax imposed on leases of publicly owned property.
- 1977 Phase in of limitation on special school levies, equal to 10% of the district budget. Voters approve initiative exempting food for off-premises consumption from sales tax.
- 1981 Voters approve initiative repealing inheritance and gift taxes. Estate tax, comprised of the amount of federal tax credit, remains in place.
- 1981 Some telephone services shifted from utility tax to B&O and sales tax; expanded to all telephone service except local residential service in 1983.
- 1982 Sales tax temporarily re-imposed on food products and a variety of increased tax rates during fiscal crisis due to economic recession. Second ("optional") 0.5% local sales tax authorized for cities and counties.
- 1984 Voters approve initiative exempting trade-ins from sales tax.
- 1985 Sales tax deferral for manufacturing investments in economically distressed areas (became outright exemption in 1995 and changed to rural counties in 1999).
- 1993 Major increase in B&O tax rates & establishment of new 2.5% rate on business services; these increases were phased down starting in 1994 and eliminated by 1998. Sales tax deferral for R&D investments by certain high technology firms. B&O tax credit for R&D expenditures for same firms in 1994.
- 1995 Sales tax exemption for manufacturing machinery. Local sales tax of 0.5% authorized for food and beverages only in King County to finance a professional baseball stadium; this represents the first differential sales tax rate upon a particular type of product.
- 1997 Voters approve limitation of growth in regular property tax levies to rate of inflation.
- 2000 Legislature repeals motor vehicle excise tax, leaving \$30 license fees. (In 1999, the voters had approved a similar initiative, but this was ruled unconstitutional.)
- 2001 Voters approve initiative limiting annual growth in regular property tax levies to 1%. Voters approve initiative increasing cigarette tax rate from \$0.825 to \$1.425.

- 2003 Additional state sales/use tax of 0.3% applied to sales/leases of new or used motor vehicles; represents first differential state sales tax upon a particular type of product. Major portions of Streamline Sales Tax Agreement adopted, making Washington's sales tax base more uniform with those of many other states. Significant new tax incentives for manufacturers of aircraft and semiconductors.
- 2004 Extension of tax incentives for high technology firms and certain firms in rural areas; new incentives for aluminum smelters.
- 2005 Sales tax deferral/exemption program extended to fruit and vegetable processing facilities; exemption from B&O tax for income derived by fruit and vegetable processors. Additional B&O tax on games of chance and pari-mutuel wagering to finance problem gambling services. Phased-in increase of gas tax from 28 cents to 37.5 cents per gallon by 2008. Increase of 60 cents in cigarette tax bringing the total to over \$2 per pack. Liquor liter tax increased from \$2.44 to \$3.77. New tax of \$1 on new, replacement vehicle tires. Washington's previous estate tax was ruled unconstitutional; a new estate tax, not tied to the federal tax, was enacted.
- 2006 Due date for monthly excise taxpayers moved back from 20th to 25th of following month. Sales tax exemption for diesel fuel used on farms and for farm machinery replacement parts. Sales tax deferral/exemption for biotech manufacturing facilities and for dairy and seafood processing facilities. Two new local tax increment financing programs established with local sales taxes credited against the state tax. Tax incentives for aerospace and semiconductor industries broadened. Expiration dates of various tax incentives extended. B&O tax credits for carbonated beverage syrup taxes

paid, for workforce training costs, for contributions to motion picture competitiveness program, and for patient-lifting devices. B&O tax rate for extracting and manufacturing of timber and wood products reduced; but new surtax also levied to finance riparian habitat.

- 2007 Final adoption of Streamlined Sales Tax Agreement; mitigation provided to local jurisdiction to help with transition to destination-based sourcing. New local sales tax of 0.2% for health sciences authorized. Local sales tax for rural counties; rate increased from 0.08 to 0.09%. Sales tax exemption for electronically transmitted data. Various other exemptions broadened.

Local Government Finance

Local government taxes have received significant attention in the past three decades. The revenue sources of cities, counties and junior taxing districts are strictly controlled by the Legislature and only specifically authorized taxes can be imposed at the local level. Traditionally, the property tax has been the mainstay of local government, but its dominant role has declined somewhat. In 1970 property taxes accounted for 86.5% of local tax revenues; that percentage declined to 62% by 2005.

Picking up the slack has been a variety of local sales taxes and taxes on lodging. The first "hotel/motel" tax was authorized in 1967 (to finance construction of the Kingdome) and the initial general local sales tax was adopted in 1970. There are currently 23 different types of local sales taxes. Some of these are not additional taxes for purchasers, but are credited against the state sales tax, thereby allowing the state to assist in the financing of certain local programs. The current maximum local sales tax rate totals 2.4% in portions of southwestern Snohomish County and in most of King County. The combined state and local sales tax rate is 8.8% or 8.9% in much of the metropolitan area of the state - among the highest rates in the country.

Major Washington State Taxes

History of Rate Changes for Selected Taxes

B&O Tax - Manufacturing

1935	Enacted at 0.25%
1951	Increased to 0.3%
1955	Increased to 0.4%
1959	Increased to 0.45%
1976	Increased to 0.4664%
1979	Decreased to 0.44%
1982	Increased to 0.458%
1983	Increased to 0.581%
1983	Decreased to 0.484%
1993	Increased to 0.515%
1995	Decreased to 0.506%
1997	Decreased to 0.484%

Retail Sales/Use Tax

1935	Enacted at 2.0%
1941	Increased to 3.0%
1955	Increased to 3.33%
1959	Increased to 4.0%
1965	Increased to 4.2%
1967	Increased to 4.5%
1976	Increased to 4.6%
1979	Decreased to 4.5%
1981	Increased to 5.5%
1982	Decreased to 5.4%
1983	Increased to 6.5%

Gasoline Tax

1921	Enacted at 1¢ per gallon
1924	Increased to 2¢
1929	Increased to 3¢
1931	Increased to 4¢
1933	Increased to 5¢
1949	Increased to 6.5¢
1961	Increased to 7.5¢
1967	Increased to 9¢
1977	Increased to 11¢
1979	Increased to 12¢
1981	Increased to 13.5¢
1982	Decreased to 12¢
1983	Increased to 16¢
1984	Increased to 18¢
1990	Increased to 22¢
1991	Increased to 23¢
2003	Increased to 28¢
2005	Increased to 31¢
2006	Increased to 34¢
2007	Increased to 36¢
2008	Increased to 37.5¢

Cigarette Tax

1935	Enacted at 1¢ per pack
1939	Increased to 2¢
1949	Increased to 4¢
1955	Increased to 5¢
1959	Increased to 6¢
1961	Increased to 7¢
1965	Increased to 11¢
1971	Increased to 16¢
1981	Increased to 20¢
1982	Increased to 20.8¢
1982	Increased to 23¢
1986	Increased to 31¢
1989	Increased to 34¢
1993	Increased to 54¢
1994	Increased to 56.5¢
1995	Increased to 81.5¢
1996	Increased to 82.5¢
2002	Increased to \$1.425
2006	Increased to \$2.025

Note: Includes only several taxes which are easy to compare tax rates (e.g., does not include the state property tax levy or other B&O rate classifications). It includes only the changes in the state tax rate and reflects only the general rates that apply to all firms or all products.

Washington State Department of Revenue, Research division, October, 2007.

Statutory Authority References

RCW Reference Title 82 – Excise Taxes

Title	Explanation	Title	Explanation
82.01	Department of Revenue	82.47	Border Area Motor & Special Fuel Tax
82.02	General Provisions	82.48	Aircraft Excise Tax
82.03	Board of Tax Appeals	82.49	Watercraft Excise Tax
82.04	Business and Occupation Tax	82.50	Travel trailers and campers excise tax
82.08	Retail Sales Taxes	82.52	Extension of Excises to Federal Areas
82.12	Use Taxes	82.56	Multi-state Tax Compact
82.14	Local - Retail Sales and Use Taxes	82.58	Simplified Sales and Use Tax Administration
82.14A	Cities and Towns - License Fees/ Taxes on Financial Institutions	82.60	Tax Deferrals for Investment Projects in Distressed Areas
82.14B	Counties - Tax on Telephone Access Line Use	82.61	Tax Deferrals for Manufacturing, Research, and Development
82.16	Public Utility Tax	82.62	Tax Credits for Eligible Business Projects
82.18	State Waste Collection Tax	82.63	Tax Deferrals for High Technology Businesses
82.19	Litter Tax	82.64	Soft Drink Syrup
82.21	Hazardous Substance Tax - Model Toxics Control Act	82.65A	Intermediate Care Facilities for the Mentally Retarded
82.23A	Petroleum Products - Underground Storage Tank Funding	82.66	Tax Deferrals for New Thoroughbred Race Tracks
82.23B	Oil Spill Response Tax	82.70	Commute Trip Reduction Incentives
82.24	Cigarette Tax	82.71	Quality Maintenance fee on Nursing Facilities
82.26	Tobacco Products Tax	82.72	Telephone Program Excise Tax Administration
82.27	Enhanced Food Fish Tax	82.73	Washington Main Street Program Tax Incentives
82.29A	Leasehold Excise Tax	82.74	Tax Deferrals for Fruit and Vegetables Businesses
82.32	General Administrative Provisions	82.75	Tax Deferrals for Biotechnology and Medical Device Manufacturing
82.32A	Taxpayers Rights and Responsibilities	82.80	Local Option Transportation Taxes
82.33	Economic and Revenue Forecasts	82.98	Construction
82.33A	Economic Climate Control		
82.34	Pollution Control Facilities - Tax Exemptions and Credits		
82.35	Cogeneration Facilities - Tax Credits		
82.42	Aircraft Fuel Tax		
82.45	Real Estate Excise Tax		
82.46	Counties and Cities - Excise Tax on Real Estate Sales		

Strategies Indexed by Goal and Objective

*Make Conducting Business with the Department
as Clear, Simple, and Efficient as Possible*

Objective

Increase Taxpayer's Ability to Report and Pay Their Taxes Easily 29

- Strategies**
- > Integrate User-Centered Design in Agency Applications
 - > Increase Outreach to Small Businesses
 - > Assess Long-Term Service Delivery and Facilities Needs
 - > Increase Outreach Through Multi-lingual Efforts

Objective

Increase Organizational Efficiency and Continuity
Through Process Improvements and Technology 29

- Strategies**
- > Enhance the Geographic Information System (GIS)
and Data Management System
 - > Study Information Technology Modernization Needs
 - > Partner with Local Governments
 - > Manage Electronic Records

Develop, Retain and Value a High Quality, Diverse Workforce

Objective

Increase Employee's Knowledge, Skills and Abilities
and Provide a Safe, Healthy Work Environment
in Support of the Department's Mission 34

- Strategies**
- > Develop a Learning Management System
 - > Focus on Succession Management and Workforce Development
 - > Improve Employee Safety
 - > Implement Diversity Program



Promote Fairness and Consistency in the Development and Application of Tax Law

Objective

Maintain the Department's Ability to Provide Timely, Accurate and Objective Information 38

- Strategies**
- > Conduct Tax Distribution Analysis
 - > Develop Agency Communications Plan
 - > Coordinate Tax Application Training

Objective

Build Capacity to Implement and Administer Legislation Designed to Promote Tax Fairness..... 38

- Strategies**
- > Provide Infrastructure for the Earned Income Tax Credit Program
 - > Implement Streamlined Sales Tax (SST)

Promote Correct and Timely Reporting and Payment of Taxes

Objective

Increase Service Delivery and Improve Organizational Effectiveness..... 43

- Strategies**
- > Integrating Data to Close the Tax Gap
 - > Increase Taxpayer Access to Information
 - > Develop a Business Continuity Plan
 - > Implement Initiatives to Address the Underground Economy
 - > Implement Delinquent Account Management Efficiencies

Taxpayers' Rights and Responsibilities

Taxpayers have the Right to:

Simple and prompt administrative process for tax refunds and credits.

Timely, fair and equitable treatment with dignity and respect.

Accurate written information on reporting instruction, appeal procedures, refund claims and reasons for assessment.

Public hearings on proposed rules.

Review and appeal assessments, business registration revocations and adverse rulings.

Remedies when statutes and rules are found to be unconstitutional.

Confidentiality of financial and business information.

Taxpayers have the Responsibility to:

Register with the Department of Revenue.

Know their tax reporting obligations and seek instructions when they are uncertain.

Keep accurate and complete business records.

File returns and pay taxes in a timely manner.

Ensure the accuracy of the information entered on their tax returns.

Substantiate claims for refund.

Notify the Department of Revenue and pay taxes promptly when closing a business.

